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Vina Hallford

HOW I HELPED
MORE THAN 10,000 INVESTORS
TO PROFIT IN STOCKS

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SCHAEFER'S "The Dow Theory Trader"
Indianapolis, Indiana

Englewood Cliffs, N. J.

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NEW DOW THEORY
GUIDANCE FOR INVESTORS

A Modern Springboard to Making Money in the Stock Market

To my wife
VIRGINIA

In honor
of
CHARLES H. DOW
SAMUEL A. NELSON
WM. P. HAMILTON
and
ROBERT RHEA
Pioneers in stock market research.

THANKS AND APPRECIATION

During my many years of stock market research, I personally have interviewed many thousands of investors, brokers, and managers of investment funds from coast to coast. In addition to these personal interviews, it has been my privilege to receive valuable investment ideas, and other interesting market information from perhaps several thousand investors throughout the nation over the past decade.

It would, therefore, be impossible to mention the names of the many friends, and the many sources of investment wisdom and market knowledge, that have had some part in my writing this book.

In nearly 12 years of publishing one of the nation's largest weekly stock market advisory services, I want to emphasize that much of what has been discussed in the following pages has been taught to me by my subscribers. Also, my observations regarding investor psychology and investment procedure are at least partially a result of the many interviews and correspondences I have had with subscribers. Also I wish to express my thanks to the many subscribers who permitted me to publish their case histories in Chapter XX of this book.

My thanks and gratitude go out to everyone for the courteous help and assistance given to my researchers and to myself. Allow me to mention especially the market research and suggestions given by John T. Haneman, Jr., Robert Von Blon, William B. Knowles, Donald G. Campbell, Charles W. White, Wm. George Schaefer, and to our publishers. For doing a splendid job of typing the material contained in this book, I am grateful to Mrs. Isabella Baker. With the help of all, I feel that much has been accomplished and that the investor public now has something tangible by which it may be guided in future markets.

E. George Schaefer

FOREWORD

(Written by a regular subscriber who built a long-term $2,760,215 profit in 9 years of following Schaefer's New Dow Theory guidance.)

I sincerely recommend that you read this book!

No matter how many years you have been an investor, or how much you have studied the market, I am confident that you will find something new for you as an investor to think about and to profit from.

I am a retired businessman. My success in the stock market has been greater than my wildest expectations. I trace my success from the moment I first subscribed to Schaefer's "The Dow Theory Trader" in 1951 and became indoctrinated in his market studies and thinking.

My records show that on December 30, 1950 my equity in stocks was $292,045. Over the years I had lived off of the income from my stocks, paid my taxes, educated my children, and so on. On December 31, 1959, which was exactly 9 years later, the market value of my holdings had soared to $3,052,260, which represents a long-term capital appreciation of $2,760,215, thanks to some of the principles Schaefer has developed.

You will find my case history along with the many other successful case histories in Chapter XX of this book. It does not surprise me to read that Schaefer estimates that more than 10,000 investors have been helped to profit in stocks by his market guidance. I certainly have been. My life, of course, has been better; I have enjoyed long vacations and trips; I have done many of the things I have always wanted to do in my retirement.

Therefore, having used the principles outlined herein, I am sure that this book contains an important message for all investors who will take the time to read and study it.

I believe that this book has been planned, written, and published for all who earnestly seek the road to profits in the stock market.

It will be especially interesting to those looking for new, im-

proved methods for making investment decisions, for new ways to know when to buy, how long to hold, and when to sell.

I have always regarded the Dow Theory as being one of the oldest and best-known methods of predicting future trends in the market. However, the original concepts of Dow, Hamilton, and Rhea have changed with the times, and Schaefer carefully outlines how still another change has taken place in recent years.

In bringing the Dow theory up-to-date, the author makes a special effort to select only that important part of the original Charles H. Dow philosophy that has withstood the changes that have taken place in economics and in the investment world over the years. And, under this same line of reasoning, I have found that only the more valid Dow theory additions and the improvements made by William P. Hamilton and Robert Rhea are discussed as this book progresses. Along with these, Schaefer has introduced his newer methods which he has tested and has used, successfully, to predict today's prolonged primary bull market on which so many of us have profited so handsomely to date.

Perhaps some of the most interesting and enlightening chapters of this book will be those pertaining to E. George Schaefer's many years of experiences and observations in dealing with people. People make the market—their thought processes, emotions, hopes, expectations, fears, greed, etc.—and a broader understanding of the psychology behind the marketplace is essential to a successful investment procedure. In the final analysis, Schaefer correlates his Dow theory principles and trend studies with mass psychology. He shows the wisdom of buying on important reactions within a primary bull market—when the psychology of the investor is depressed, temporarily—for long-term gains as the primary bull trend resumes upward later. And, in one of the final chapters, he gives many interesting case histories—some whose successes have been very similar to my own—that illustrate how investors have used the methods discussed in this book to obtain financial independence, and, in many cases, great wealth. I believe E. George Schaefer's new Dow theory as explained in this book to be the most helpful guide to future gains in the stock market available to investors today.

A Grateful Subscriber

CONTENTS

CHAPTER		PAGE
I.	KEY TO STOCK MARKET GAINS LIES IN RESEARCH	1
II.	MY OBSERVATIONS BEGIN WITH DOW	5
III.	RHEA IMPROVES THE WORK OF HAMILTON	15
IV.	FIFTEEN PRINCIPLES OF DOW, NELSON, HAMILTON AND RHEA	21
V.	EVOLUTION OF MY NEW DOW THEORY	27
VI.	THE AVERAGES—HOW VALUABLE?	31
VII.	DOW'S PRIMARY TREND—BUILDER OF PROFITS	37
VIII.	MY 50% RETRACEMENT CONCEPT	44
IX.	THE MARKET'S THREE PHASES	52
X.	THE YIELD CYCLE	65
XI.	THE RATIO OF SHORT INTEREST TO DAILY VOLUME	70
XII.	CHARACTER OF TRENDS SEEN IN ODD-LOT STUDIES	77
XIII.	THE 200-DAY INVESTMENT LINE	89
XIV.	OTHER HELPFUL TREND INDICATORS	102
XV.	PSYCHOLOGY OF THE CROWD	110
XVI.	FINDING SUCCESS IN STOCKS WITHIN YOURSELF	120
XVII.	WHY THE ODDS ARE AGAINST YOU IN TRADING	136

XVIII. MY PROCEDURE FOR MAXIMUM GAINS IN STOCKS ____ 150

XIX. HOW YOU CAN PROFIT FROM A DEPRESSION ____ 167

XX. CASE HISTORIES—LET SUCCESSFUL INVESTORS TELL YOU THEIR OWN STORY! ____ 186

XXI. HOW TO PRACTICE THE ART OF INVESTING ____ 235

INDEX ____ 247

HOW I HELPED
MORE THAN 10,000 INVESTORS
TO PROFIT IN STOCKS

Chapter 1

KEY TO STOCK MARKET GAINS LIES IN RESEARCH

Changing trends in business, earnings, growth, and politics will continue to bring new opportunities.

I am a stock market analyst, dedicated to research in finding better methods for predicting future stock market trends, and to helping investors to profit in stocks through the publication of my weekly advisory service called SCHAEFER'S "The Dow Theory Trader." My purpose in writing this book is not to illustrate how much I know, but to show you how you may learn to become a successful investor—how you may profit in stocks.

Allow me to concentrate on you, and your market problems. You have my book before you—my effort to help you to greater future profits in the stock market. In your hands, right now, is a book that will touch on your own problems and offer the investment guidance that has been profitable to thousands of people the nation over.

To begin, I will give you some valuable background information, and then, we will progress to a discussion of the research and the actual methods that have helped so many thousands of my subscribers to profits in stocks since 1949.

As in many other types of businesses, the secret to success in the stock market lies in a better understanding. Great profits have been built by the knowledge gained through market research. That is why investors everywhere will always be interested in learning something new about the stock market.

Equally important to your success in stocks is your own thinking. It will pay you to have a full knowledge of how your own mental processes work when you make a market decision. Later chapters will give you a clearer insight into your own personal psychology, and I will offer suggestions as to how you may improve your ability to make the right decision at the right time in your own stock market procedure. Before you are done with this book, then; I promise that you will have developed new and more profitable pathways of investment thinking.

Over the past 12 years, my list of regular subscribers has grown by leaps and bounds. Many have achieved handsome long-term gains, financial security, and have had lots of fun building profits in stocks with the help of the research and interpretations I have rendered.

There are of course a good many other people in the same business as I am, as a glance at the financial pages of any large Sunday newspaper will show. The last Sunday financial section of *The New York Times* which I looked at, for example, contained advertisements for 28 different services of one sort or another.

Why the great popularity of some of these many services—even some of those which repeatedly have been *wrong* in their market forecasts? The answer is to be found, I believe, in human nature itself and the prolonged, dramatic rise in the stock market from 1949 to 1960 which has captured the attention and imagination of the American public as never before. If you are not aware of the magnitude of this stock market climb, let me point out that *just since June, 1949, the leading measure of stock prices, the Dow-Jones Industrial Average, has more than quadrupled, as of this writing.*

People who have wisely followed a correct investment procedure and who held on to carefully selected growth stocks throughout this entire decade have some remarkable profits to show for their patience, in most cases.

Other people have owned stocks, but later sold them—perhaps during the severe "shakeouts" which panicked many people as stocks temporarily plummeted downward in the intermediate declines of late 1953 and late 1957. These people, for the most part, have had cause to regret their action in selling stocks as the bull market moved to higher and higher levels to seek its final top.

Still other people, either by necessity or choice, have not owned any common stocks at all during this prosperous and opportune decade. Thus they have missed a good chance for profits, and perhaps to make their capital double, triple, or perhaps quadruple in value. Furthermore, if they have had no investments in real estate, a business, or in some other form of "inflation hedge," their pocketbooks have probably been severely punished by the 25% rise in the cost of living which has taken place just since 1949.

However, it is not my purpose in this book to restate the arguments that have favored common stocks as a prudent investment as this major bull market progressed upwards since 1949. That has been effectively done by many books on the subject, and in the advertisements and booklets disseminated by the larger brokerage houses and by the New York Stock Exchange itself.

Instead, I will assume that most readers are at least generally familiar with the benefits of common stock ownership—that they know better-grade stocks pay regular dividends, for the most part, and tend to rise or fall in value as changes in the outlook for business and the economy occur. (Since 1949, you will note, common stocks have more than kept pace with the rise in the cost of living—and by a wide margin.) My purpose, instead, is to tell you something about my methods of predicting future trends, and how I have been fortunate enough to help over 10,000 investors to profit in the stock market through these methods and in correctly interpreting time-honored principles of the Dow Theory in this major bull market.

I hope the principles I will discuss and develop in the pages to come will strike a sympathetic chord with your own thinking on the subject. To me the Dow Theory and its newer developments is an utterly fascinating and absorbing subject. It is one market theory—probably the only one—which has the record of having been reasonably "right" in calling the major turns in the stock market from the early 1920's through to this present day.

At present perhaps the majority of my followers would probably say that the primary reason why so many people are interested in my research and market forecasts is this:

Near the lows in June, 1949, when my advisory service was just one year old, I issued some extremely bullish forecasts in my weekly letters to subscribers. In them I announced that my studies

were showing that the bear market in progress since 1946 had come to an end, and a great bull* market was just beginning. Ever since then, and over the ensuing 11 year period, I have remained bullish on the basic primary bull trend in stock prices, and have remained fully invested in diversified growth issues, all the way up.*

Later in this book I will go into the question of why I believe stock prices are now in a "selling area" and why this long bull market will soon come to a resounding end, as it ultimately must.

During my career I have disregarded the many minor dips and the sometimes drastic (twenty-one) intermediate-term declines which have interrupted this long upward surge. Indeed, I have not attempted to predict them. Later chapters in this book will give you the reasons why it is impossible to profit through trading by the average investor. I know of no way by which anyone can accurately predict or persistently profit from trading in anticipation of the beginning or end of these "interruptions" to the basic, or primary trend of the market, simply because such swings within the primary trend so often reflect the news—and nobody knows what the news will be ahead of time.

However, perhaps in reading this book you will discover, as I have, that the basic trend of the stock market itself, when correlated with present-day research methods, has an amazing ability to forecast the future course of its own primary movement.

Properly interpreted and implemented by several modern forecasting techniques, several simple rules formulated over the years and discussed in these pages can almost always show you whether, at any given time, it is better to be fully invested in selected common stocks—or in none at all.

As I'm sure you're aware, investors who carry with them the answer to that fundamental investment question have an overwhelmingly better chance for success in the stock market.

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* Definitions:

A *bull* market is a period of rising stock prices.

A *bear* market is a period of falling stock prices.

I can sympathize with readers who are confounded by Wall Street terms such as these. However, I urge you to memorize which is which. The two terms must be constantly used in a book such as this, because of their convenience. Some people find it helpful at first to think of the lifting upward of a bull's horns.

Chapter II

MY OBSERVATIONS BEGIN WITH DOW

"History provides a rich background for stock market research."

As a young man, my determination to understand the Dow theory took me back into the pages of history to its originator, Charles H. Dow.

It wasn't long before I found out that Dow developed a famous market philosophy while living a colorful life as a newspaper reporter, financial writer, broker, analyst, and editor.

Born in Sterling, Connecticut, in 1851, the son of a farmer, little can be found regarding his early life and schooling. However, by 1872, Dow began to blossom out at the age of 21 as a promising newspaper reporter for *The Springfield Daily Republican* of Springfield, Massachusetts.

It is interesting to note that this leading New England newspaper was edited by the spectacular Samuel Bowles who was well-known and famous for his writing in this country and throughout Europe. No doubt, since Dow was only 21, this great editor strongly influenced young Dow, a budding newspaperman.

From 1875 to 1879, Dow continued his newspaper work in Providence, Rhode Island. Here he soon became known as an outstanding reporter for another leading newspaper, *The Providence Journal.* Once again, a famous newspaperman, George W. Danielson, was editor. In those days, the greatness of newspapermen was measured by their style of writing and the appeal it had to the public. All writers worked to follow or to improve the

pattern of literary expression set by the masters of the profession.

It is assumed that Dow did the same. By the time he was 27, he had the good fortune to have served under two of the nation's best known and most highly respected newspaper editors, and, no doubt, they did much to guide the upcoming Dow into the bright future which was in store for him. We will never know whether or not Dow planned to get this unusual training he received as a young reporter.

By 1879, the fabulous mining boom in and around Leadville, Colorado, was on. It seemed that just about anyone in those days could go into the mountains in this area with a pick and shovel and become a millionaire almost overnight. The town had mushroomed in its growth from one lonesome cabin on the side of a mountain nearby to a thriving mining center of some 20,000 people in just a few years.

Many newsworthy events were taking place in Leadville. Several New England newspapers felt that they should obtain more detailed information. In a united effort in this direction, they selected Dow to make a trip to Leadville.

This trip, made in the summer of 1879, became a turning point in Dow's career. His writings from then on were to become more and more financial in nature. Being the most qualified reporter sent by some highly respected newspapers in the East, Dow gained admittance to the inner chambers of some important financial people, and it wasn't long before he became nationally known for his financial writings.

In 1880, he moved to Wall Street as an experienced mining analyst and talented newspaper reporter. Tall and fully bearded at the age of 29, he joined the financial staff of the Kiernan News Agency. There he became acquainted with Edward D. Jones, and in 1882, Dow and Jones established the Dow Jones & Company which operated as a financial news agency for a number of years, and later, in 1889, began publishing *The Wall Street Journal* which was destined to become the largest financial news-gathering agency in the world.

Another chapter in Dow's broad financial experience came in late 1885 when he became a member of the New York Stock Exchange. He became a partner of Goodbody, Glynn & Dow at that time, and acted as the firm's floor broker for a number of years.

Six years later the firm's name was changed to Robert L. Goodbody & Co. Dow had severed his connections with the firm. With *The Wall Street Journal* now in its second year, Dow devoted his attention to it entirely.

In the years that followed, until his death in 1902, Dow became the nation's leading financial writer in the eyes of many investors as editor of *The Wall Street Journal.* He was regarded as a seasoned, intelligent financial observer with a keen ability to judge human nature. Dow came up through the ranks with an excellent training in journalism, a wide experience in the field with financial affairs, a membership in the New York Stock Exchange, and editor of *The Wall Street Journal,* his own enterprise, which was to grow and grow for many decades after his death.

This record of achievement against huge odds is to be noted as we discuss other Dow theorists in the following pages. Dow was a self-made man and had to blaze his own trail in the business of analyzing market trends for investors. He had practically no market statistics to rely on, as we have today. His varied experiences, his seasoned insight into the psychology of investors, his close financial contacts during 22 years on Wall Street, and his patience and determination to get at the truth in his financial writing remain the backbone of his market philosophy.

It was during these 22 years that Dow gained valuable knowledge of price movements and their relationship to the outlook for the overall economy. Here he could observe at first hand the full turn of a business cycle—and its effect upon stocks—from bottom to top to bottom again. This history tells us he recorded many facts and figures diligently, as a student of the market, so he could analyze how individual issues and groups of stocks reacted to business conditions and to other economic news.

These were the days of unhampered manipulation on the floor of the Stock Exchange, masterminded by such operators as Jay Gould, James R. Keene, and "Bet-a-million" Gates, who got his nickname by wagering which rain drop would roll to the bottom of a train window first.

The writings of Dow from 1899 to 1902 still amaze market students today. For example, Charles H. Dow once wrote that an investor *"who will study values and market conditions, and then exercise enough patience for six men, will be likely to make money*

in stocks." Penned some sixty years ago, this thought-provoking observation is as important today as ever before.

Dow knew that time itself had produced large fortunes for those who studied the market, had the temperament to buy low when a primary bull market was in its early stages, when good values were available, and held on patiently as a major bull market progressed upward over the years.

Jay Gould, whose speculative forays into the stock market had amassed millions, was among them. Dow, who knew Gould well, and is reported to have enjoyed his confidences as much as any newspaperman of the period, wrote that the goateed New York plunger based his position primarily on "values" at times when the market's primary trend pointed higher. *"Then,"* added Gould, *"I exercise great patience in awaiting results."*

Dow correctly observed from his experience on the New York Stock Exchange that even the manipulation which then prevailed had little effect upon the long-term price movements of stocks, because the overall "primary" movement represented actions based on the sum total of all knowledge available to Wall Street. He noted that the movement of the market reflected either bullishness or bearishness as far ahead as the clearest vision in Wall Street could collectively see. These views were expressed time and time again in his editorials in *"The Wall Street Journal."*

Dow's philosophy of investing has been described as "fundamental, axiomatic, sensible, and self-evident." He often said, *"that nobody in the world knew everything—but, that the price movement of the averages did because they represent the aggregate knowledge of all investors."* He was the first to observe that *"the price trend is not saying what the condition of business is today, but what it will be months from now."*

By the time of his death, Dow had lived through three financial crises in this country—1873, 1884, and 1893—and during the same period he saw a booming United States economy outdistance every other country in the world in steel production, railway mileage and manufactured products. His broad financial experience plus the vast amount of information on business and economic conditions in this country and the rest of the world that passed over his desk daily as editor of *The Wall Street Journal* was the background from which Dow was able to draw and develop

his concepts. It helped him form the basic elements of a market philosophy which, in the past six decades, has been studied, followed, or imitated more than any other forecasting technique ever devised.

Dow logically reasoned that before guess could be formulated as to the expected direction of the majority of stock prices, it was necessary to decide whether the market was, at any given time, "high," "low," or somewhere "in between."

But at this time there was no real way to tell. You could look at the record of two or three stocks and form a subjective judgement. But your conclusions might be erroneous if, as well might happen, the two or three stocks you chose were not truly representative of market forces at that time. Union Pacific might be selling at a three-year high, but before you could judge the price level of "rail stocks" as a whole, in historical perspective, you would have to consider the price movements of a considerable number of respresentative issues.

The more issues you included—and the more years you went back—the better you could view the "market" in its proper perspective. Because it would have been time-consuming for the average person to make such an anaysis, investors generally relied on the memories and opinions of their brokers. Brokers, in turn, did not always agree on the state of the market as a whole. The investment business was characterized by a good deal of confusion, as there was no authoritative, published measure of the movement of stock prices.

Charles Dow satisfied a widespread craving for such a measure when he formulated a statistical set of averages that was to become known as the "Dow-Jones Averages." There is evidence that Dow experimented with various types of averages for many years. One article published in the early years of *The Wall Street Journal* implies that he had worked with an average of 60 rail stocks as far back as 1872. The first issue of *The Wall Street Journal* appeared on July 8, 1889 and it contained an average of 12 stocks with a discussion suggesting that Dow had been carrying this average forward from 1884, at least.

The original Industrial and Rail Averages appeared in *The Wall Street Journal* on October 8, 1896. The Industrial Average was composed of 12 stocks and the Rail Average contained 20.

Although the Industrial Average has been enlarged to 30 stocks and many changes have taken place in the make-up of both averages over the years, these averages have been published in *The Wall Street Journal* regularly since then. A third average, the Utility Average, composed of 15 utility stocks, was initiated in 1929.

Dow apparently had no intention of formulating a system or theory of any sort when he invented his averages. After he had constructed them, however, he gave them careful study to see if conclusions could be drawn or if any sort of a pattern emerged from their behaviour. He often commented upon the developments that took place in his averages, and, as a rule, he correlated these findings with the economic situation and mass psychology among investors.

His findings soon began to exceed his wildest expectations—and later amaze those of his followers who were to continue and refine Dow's concepts. Dow never sat down to record all the principles of his Dow theory in a single book or article. Instead we must look to his whole collection of editorials from 1899 to 1902 to find his perceptive interpretations of the price movement, which form the background for what we regard as the Dow theory today.

One of Dow's close friends and associates—Samuel A. Nelson—publisher of five books on the stock market, did attempt to persuade Dow to write a book on his investment ideas. But his efforts were to no avail.

Consequently, even before Dow's death in late 1902, Nelson undertook the work of gathering material for the book which he believed Dow should have written. Nelson spent many long hours digging through the "morgue" of *The Wall Street Journal* seeking out what he believed to be Dow's most informative and interpretive stock market editorials.

Nelson's fifth and last book, *"The ABC of Stock Speculation,"* published in 1903, gave voice to many principles of trading and contained a number of Dow's editorials which he labeled as "Dow's theory."

The success of Nelson's book drew much attention to Dow and his editorials. Nelson, probably with the help of Dow, had selected those editorials which were to keep the Dow theory alive. In addition, the work was filled with many of Nelson's own con-

cepts which seemed to strike at the heart of all shrewd investment thinking for years to come. From about 1904 to 1925, many successful investors and speculators referred constantly to Nelson's *"The ABC of Stock Speculation"* as an indispensible reference work.

Like Dow, Nelson was unfortunately not to live to see his fame grow. He was succumbing to tuberculosis by the time he had completed and published his book. (I believe we are all deeply indebted to S. A. Nelson for his keen appreciation of Dow's market philosophy, his willingness to give his final energy to form the foundation for further research, and, thereby, to be helpful to thousands of investors, large and small, for many generations to come.)

With the deaths of Dow and Nelson, the Dow theory mantle was taken up in 1903 by William Peter Hamilton. In the 26 years to follow, Hamilton was to introduce numerous refinements of the Dow theory. He published a total of 252 editorials in *The Wall Street Journal* and *Barron's*—many of which he headlined simply "The Price Movement." These succinctly summarized his own Dow theory interpretations of the market.

Hamilton became editor of *The Wall Street Journal* in 1908. As seen from this editor's desk of the nation's largest financial newspaper, Wall Street became an endlessly colorful procession of stock promotions, people, and profits. The aura of mystery that shielded Wall Street's mysteries from Main Street's crowds was like a transparent curtain to Hamilton. He has expertly captured the early years of this stimulating and adventuresome period in his unusually interesting book, *"The Stock Market Barometer,"* published in 1922. It paints an intimate portrait of the agile operators who strode across the market scene—as well as setting down Hamilton's absorbing Dow theory interpretations.

Hamilton's up-dated adaptation and application of Charles H. Dow's market philosophy brought him fame and a huge following as a market analyst. His version of the Dow theory as it might be helpful today will be summarized in a later chapter.

His contributions to the science of Dow theory analysis and predictions of future market trends were to be found mainly in his skill at reading the long-term or primary trend of the averages and his ability to go contrary to the often-wrong mass investment

psychology in predicting the next major price movement.

In studying the work of Hamilton, along with that of Nelson, we must remember that both these men had a close contact with Dow. Nelson was a friend, and Hamilton, an employee. Their thinking and probably a large portion of their complete financial attitudes were influenced by the hard-driving Dow who was the only master in his own new field.

William Peter Hamilton began as a reporter for *The Wall Street Journal* in 1899. Born in England in 1867 he came to the United States with some experience in financial affairs and in journalism. Dow soon noted the intelligence and talent of Hamilton and began to train him for the responsibility of carrying on *The Wall Street Journal.*

From various remarks that have been published in the past, the indications are that while Hamilton had a brilliant mind and an executive personality, he also had a deep emotional feeling of insecurity and fear. This cropped out in several of his writings, and very probably the great emotional disturbance caused by the crash of October 1929 was at least partly responsible for his death, immediately after, on December 9, 1929.

As we will see, Hamilton predicted the great primary bear market to come. He had a huge following. If my experience as an analyst with a large following is to be regarded as a similar situation, there is every reason to believe that Hamilton's followers lashed out at him unmercifully. They refused to believe his bearish predictions.

When the public is loaded up with stocks as they were in 1929, their emotions become increasingly keyed up and set for a higher market ahead. The reason they have stocks, emotionally speaking, is because they want them to go up. An intense emotional desire, greed, and frustration among the public turns to fear, panic, and hostility when a market turns downward as in October, 1929.

Hamilton, in all sincerity, tried to help his readers. Yet, logic cannot rule over the emotions unless it has been trained to do so in a constructive manner over long years of study and hard work. As you read the later chapters of this book, you will find that under my observations only approximately 5% of all investors train their own logical and rational thinking to be more influential than their emotions. That 5% generally ends up making

money in stocks. The other 95% will always remain the emotional, irrational crowd, and, in my opinion, it is this crowd that finally overburdened and broke Hamilton's health in late 1929.

As I read into the pages of financial history, it seems to me that Dow saw this vulnerable trait in Hamilton. Dow tried to help Hamilton with his emotional difficulties. But Hamilton, being emotional, resented it fiercely. In one instance, Thomas F. Woodlock who succeded Dow as editor of *The Wall Street Journal* said that Hamilton sometimes responded with intense irritation in his talks with Dow. Hamilton himself wrote in another instance:

> *Charles H. Dow, founder of* The Wall Street Journal, *had been brought up in newspaper work by the elder Bowles and, like his master, he would call me up for a sort of police third-degree on my previous day's work. My protest to Dow's partners was met by the assurance that this was Mr. Dow's way of showing his affection—a regard only extended to promising material.*

My reason for pointing out Hamilton's emotional difficulties will come clear in later chapters where I show how you yourself may further your own investment success. To state it briefly, it has become fairly certain among physicians and psychiatrists that investors with severe emotional disturbances will tend towards building up a system or a method to support the vulnerable area in their emotional and mental make-up. As I see Hamilton's work, he did wonders in overcoming his emotional troubles. That is why he eventually became a success. Therefore, as we try to see through the problems of the investor, the analyst, the financial writer, and ourselves, the newer school of Dow theory thought strives for a better understanding of everything involved and a better solution to such problems.

Hamilton will always be well-remembered for the following famous editorial which he wrote on October 25, 1929:

> *On the late Charles H. Dow's well-known method of reading the stock market movement from the Dow-Jones averages, the twenty railroad stocks on Wednesday, October 23, confirmed a bearish indication given by the industrials two days before. Together the averages gave a signal for a bear market in stocks after a major bull market with the unprecedented duration of almost six years.*

The above was published in *The Wall Street Journal* just four days before the New York Stock Exchange was engulfed by a wave of selling which, in the following two weeks, drove the Dow-Jones Industrial Average down over 100 points. The 1929 "crash" had begun and a bear market followed—just as Hamilton's version of the Dow theory had indicated it would.

As many of you may remember, Hamilton's was one of the few voices to challenge the "permanent plateau" concept of the stock market, in an era when paper profit fortunes were amassed on as little as 10% margins.

Before we launch into a broader discussion of my new Dow theory, and how you may profit from its principles, it is necessary to introduce one more prophet who improved and made excellent use of the Dow theory in analyzing the stock market's primary bull and bear trends.

Unlike Dow and Hamilton, Robert Rhea was not associated with *The Wall Street Journal.* Moreover, Rhea was to prove that accurate stock market forecasting could be conducted far from Wall Street's rumor-filled canyons.

Chapter III

RHEA IMPROVES THE WORK OF HAMILTON

"There are times under the Dow theory when one can buy stocks with his eyes closed."—
—Robert Rhea

Viewed from the thriving resort town of Colorado Springs, the lofty summit of Pike's Peak is an awesome sight to behold. It was to Colorado Springs—a colorful blend of the modern and the wild West—that Robert Rhea came in the 1920's to start an auto finance business and recover his health following a World War I injury. It was here also that Rhea became interested in Hamilton's editorials, did considerable research on the Dow theory in an effort to improve its use for investors, and wrote his widely read books on the Dow theory.

Soon after Rhea published his first book, entitled "*The Dow Theory*," investor interest in his research skyrocketed, and, as a result, he began his *Dow Theory Comment* advisory service which grew by leaps and bounds for several years.

In the summer of 1958 I spent some delightful hours with Perry Greiner, Rhea's close friend and business associate. In the same building—on Pike's Peak Avenue—where Rhea developed and contributed many of his valuable chapters to the history of stock market forecasting, we reminisced about the market of the 'twenties and 'thirties. We also discussed some of the important advances that have been made in Dow theory forecasting since Rhea's untimely death at the age of 53, in 1939.

Rhea entered the investment scene in 1932, only a few years

after Hamilton had issued his timely prediction of the beginnings of the 1929 crash. Although we will never understand why Robert Rhea ignored Dow's fundamental concepts almost completely, Hamilton's writings captured Rhea's keen and analytical mind and inspired him to undertake additional research. A man who painstakingly collected detailed statistical information to support his views, Rhea nourished and refined Hamilton's versions of the Dow theory.

His greatest single achievement was in the field of trend classification, to improve the reading of the pattern of the averages. Until Rhea's arrival on the scene, many investors were confused in their efforts to interpret the swings recorded by the averages, but Rhea helped to clarify their understanding.

Paradoxically, Rhea's excellent work finally created something of a problem. In following Rhea, many of the growing number of Dow theorists thought they had struck gold in the stock market and devoted almost all of their attention to swings within the averages—and soon they paid little or no attention to the important fundamentals of the Dow theory. Many completely disregarded important considerations such as the direction of the long-term primary trend, analyzing investor psychology, Dow's concept of buying values, studying economic trends and other market conditions, and exercising patience in holding good values in harmony with a primary bull market movement as originally suggested by Dow.

Instead they attempted to trade through second-guessing the intermediate swings that always accompany a basic bull or bear market. As part of the trend towards this misuse of Dow's principles, many inexperienced and jittery financial writers attempted to make their own sometimes emotional Dow theory predictions of the market's behaviour. In my opinion, nothing could have been more misleading when viewed in relation to the original teachings of Dow.

Yet, for those who viewed Rhea's work in its full perspective, he contributed much in addition to his work on the averages. His first book, published in 1932, is well worth reading and deserves careful study by serious market students. Called "*The Dow Theory,*" it contains all 252 of Hamilton's articles from 1903 to 1929, in addition to Rhea's many informative chapters.

Rhea's singular interest in the interplay of the averages led him to develop several popular methods for determining when important turns might take place. Some of these methods are still helpful today and certainly no student of the Dow theory should disregard the work of this analyst—even though, in my opinion, many of his conclusions do not lend themselves completely to the changing markets of today.

Rhea's early years in the market were not auspicious. He said later that he learned much from experience in the early years when, in trying to find a system to build profits, he registered losses instead. The road back was painfully slow, he wrote, but his gradual mastery of the Dow theory was accompanied by a gradual growth in his capital.

Whimsically attributing his stock purchases at the beginning of the bull market in 1921 and their liquidation in late 1928 to *"the Dow theory or just plain luck,"* he found the theory equally helpful when he took a short position for two years as stocks fell sharply following the 1929 crash. Near the 1932 lows, he again interpreted the market situation under the Dow theory as being bullish. It was near those lows that he said, *"You can buy stocks here with your eyes closed."* Thus, he urged his readers to buy stocks very near to the depression lows and to hold them, and he remained bullish all the way up as the new bull market rose to its top in 1937.

At that time, the averages gave an authoritative downward "zigzag" which Rhea interpreted as the beginning of a new downward bear trend. History was to prove him correct—the market rolled over and started a major decline, almost exactly as he had predicted.

Robert Rhea's career as a Dow theorist was unfortunately cut short when he succumbed to his old illness received in World War I. His last investment letters were written from his bed in the fall of 1939. Here again, no one knows how much his life was shortened by the fact that he had thousands of subscribers to his advisory service, *Dow Theory Comment,* and that he had advised a bullish crowd at the top in 1937 to turn bearish and to get out of stocks. Knowing what I have learned about human nature from the many thousands of people who have subscribed to my own service, I would guess that the inexperienced crowd's emotional

fears on the decline in 1937 and early 1938 turned to panic and then hostility towards any and all services. Very probably many people blamed Rhea for their not having sold soon enough. This bombardment of fearful long-distance telephone calls, worrisome telegrams, nasty letters, and cancelled subscriptions from an emotional public is usually enough to put an end to any analyst who is out on his own and who is not prepared for it.

In Rhea's case he had received an injury in an aircraft accident during 1918 in World War I which disabled him, and he remained more less an invalid until his death in 1939. It seems reasonable to assume that he was physically unable to broaden his personal experiences, to go out into the field, to cities and towns from coast to coast, and meet investors in a way that would teach him about investors as people, and prepare him to resist the crowd if and when it turned on him.

The analyst working for a newspaper, magazine, or the college professor generally is cushioned from such an impact. The individual on his own in the advisory service business, however, must learn to resist the many unreasonable blows so frequently dealt to him by human nature, if he is to survive as an investment adviser. Survival requires an inner emotional strength that can only be built up by a variety of personal experiences, by a sound market philosophy, constructive thinking regarding human nature, and by success itself.

We will never know just how well Hamilton or Rhea were able to adjust themselves emotionally to their large followings, or to what degree they allowed their emotional feelings to enter into their interpretation of the Dow theory. Robert Rhea sometimes displayed various degrees of hostility in his *Dow Theory Comment* writings, but it can't be said definitely from his writings that he was a fearful, sensitive, emotional, or irritable man. It is also known that he enrolled at both Lehigh and Vanderbilt Universities but received a degree from neither, even though Rhea's writings showed that he was a highly intelligent person.

His work on the Dow theory leaned heavily towards the establishment of a more or less flexible system based on the averages which everyone so inclined emotionally could attempt to use. As I have mentioned before, this system which placed an undue em-

phasis on the pattern of the averages finally brought on the wrath of the emotional public as it failed to create the hoped-for profits and brought about fears and losses to many inexperienced people instead. Systems, psychologists tell us, are used by people who need them to cover up their deep emotional faults. Gamblers invariably have a system. Psychologists say that this is because deep in the gambler's subconscious mind is a weakness, one that tells him he is going to lose, so he protects that faulty thinking with a system.

It has always been interesting to me that both Hamilton and Rhea have shown indications here and there of certain emotional difficulties, and that both steered away from Charles H. Dow's thinking in many respects. Hamilton was very reluctant to give Dow the full credit that he deserved. And Robert Rhea, in turn, disregarded the work of Dow almost entirely, and specialized in trying to improve the Hamilton version of the Dow theory.

Why did Rhea practically ignore the original work of Dow? Dow's many editorials and financial articles certainly covered a broad area of financial thinking and embraced an outstanding market philosophy. I would say that probably Hamilton's interpretations served the very natural psychological purpose of supplying Rhea with the disturbed emotional support or cover-up that he needed to go on living as an investor and analyst. Therefore, Rhea set out in a fascinating manner to improve the work of Hamilton in such a way to make the system that Hamilton promised to those who studied the averages work even better.

In my opinion, Rhea accomplished this in a splendid, informative manner. His book, *The Dow Theory,* is a thoughtful, stimulating piece of work, and has been a best seller among financial publications. Regardless of why he became such a forceful exponent of William Peter Hamilton, however, there is much to be learned from Robert Rhea, and his work should not be ignored.

Under the guidance of Hamilton and Rhea, the Dow theory of the '20's and '30's had proved itself a reasonably correct and profitable beacon to follow at every major turning point—1921, 1929, 1932, and 1937. These men not only led many confused investors through the labyrinths of misinterpretation which abounded in Wall Street, but each made his contribution by up-dating, mold-

ing, and shaping the theory to the changing conditions of his time. For the market for common stocks had expanded and changed its nature considerably since Dow's time.

For ten years following Rhea's death in 1939, the Dow theory floundered and confused the masses as inexperienced analysts and financial writers tried to interpret it by past standards. New research failed to come forward and no real attempts were made to bring the theory up-to-date.

As investors failed in their own "do-it-yourself" interpretations, the Dow theory's guidelines frayed. By 1948 there were almost as many interpretations of Dow's original methods as there were Dow theory amateurs toying with its intricate components.

To help allay this confusion, the writer decided the time had come to publish some of his research studies and interpretations, in hopes of bringing about some sane and sensible Dow theory thinking. Thus in 1948 I began my weekly Dow theory analyses for investors.

But before looking at my new improvements in the use of Dow's important theory, let us take a quick look at the legacy which has been left to market students by the four trailblazers, Dow, Nelson, Hamilton, and Rhea. In the following chapter on Dow theory principles, which we will call the Fifteen Principles of Dow, Nelson, Hamilton, and Rhea, we will find much that is valuable and has survived to this day. We will find, too, some concepts that have become antiquated and should be modified as suggested, in the light of market experience since Rhea's death in 1939. And finally, we will find some "borderline material"—rules which need more research in the light of present-day markets, some of which may provide valuable clues to the market's future behaviour, but which may also be misleading unless considered in a correct relationship to more reliable market indicators.

Chapter IV

FIFTEEN PRINCIPLES OF DOW, NELSON, HAMILTON, AND RHEA

"When the late Senator Spooner said, 'Listen to the bloodless verdict of the marketplace' he saw the merciless accuracy of that verdict; because it is, and necessarily must be, based upon all the evidence, even when given by unconscious and unwilling witnesses." W. P. Hamilton

As history moves along from the Charles H. Dow--S. A. Nelson era, to the W. P. Hamilton--Robert Rhea era, we find Wall Street in the 1900's and its concentration of wealth slowly moving westward and spreading out to all sections of the nation. In the '20's and '30's, many new financial centers began to spring up and grow rapidly in all of the country's larger cities, the total number of investors multiplied many-fold, and this same growth trend is still very much in force today.

With it, of course, financial columns in the newspapers and magazines became more numerous, not to mention the many services and the market opinions of brokers and bankers.

Thus a great confusion of financial opinions began to cover the land, and this remains true today. Under this new setting, both Hamilton and Rhea improved the Dow theory as they believed necessary to meet new conditions.

To help guide this great new influx of new, inexperienced, and emotional investors during bull or bear markets, the basic concept of *"listen to the bloodless verdict of the marketplace"* ran through

Hamilton's and Rhea's work on the averages. Let us now take a look at what I regard as the fifteen more important principles under the Dow theory as they gradually were developed since Dow's time. In highly condensed form, these principles, some of which still hold true as valuable market indications today, with my own comments in parentheses, are as follows:

1. *The stock market's behaviour may be predicted with a reasonable degree of accuracy over a period of time from a careful observation of the patterns plotted by the Dow-Jones Industrial Average, the Dow-Jones Rail Average, and the tendency of the total daily volume of transactions on the New York Stock Exchange to contract or to expand as such movements in the Averages occur.*

(If the investor will make careful studies of how the averages have performed in bull and bear markets over the years, if he is willing to correlate other technical studies with his conclusions, and if he doesn't expect to be 100% right every time in his predictions, then I believe the above principle still holds good today. Several of the following chapters will discuss some of the more important helpful ways which I have found to predict the future trend of the market.)

2. *The averages discount everything. Since investors by their very nature constantly scan the news and react either bullishly or bearishly to it, the movements of the averages reflect the sum total of collective investment thought through the willingness among investors to purchase or sell stocks. As a result, trends in business are usually discounted six months to a year ahead. Thus, the averages move according to the bullish or bearish balance of thinking among investors and reflect the sum total of all correct knowledge and misinformation, fact and rumor, political events, news items of all kinds, optimism and pessimism regarding current and future business conditions, and the future ability of companies to earn profits and pay dividends.*

(I would add to this by saying that the averages also reflect all the emotional fears and anxieties among investors on severe reactions when the news is bad, and the speculative urges that come as a result of an emotional exuberance which leads to excesses on major advances when the news is good.)

3. *The market may best be understood if the averages are*

looked upon as having three different types of movements all going on at the same time. The Primary Trend is the basic underlying upward or downward force which usually runs for several years before a primary bull market trend changes direction and becomes a primary bear market trend, or vice versa. The Secondary Reaction is the intermediate reversal which occasionally interrupts the basic primary movement of the market—a sell-off during a bull market or a rally during a bear market. These reactions are generally quite sharp in nature and usually last from three weeks to three months. The Minor Trend is composed of daily fluctuations which represent the response of the market to day by day news. They are to be disregarded in Dow theory application because individually they have no significance whatever.

(As discussed in Chapter VII, my new Dow theory places the emphasis upon the primary trend as the trend to follow for profits in stocks.)

4. *All Primary Bull Markets consist of three phases—which are separated by more or less severe secondary reactions. The First Phase represents reviving confidence in the future of business; it begins during a period when business is in the doldrums of a depression or recession and in an atmosphere almost totally devoid of optimism or hope. The Second Phase represents a response of stock prices to actual improvements in earnings statements and statistical business indicators, as they occur. The Third Phase represents a surrender of the public to fears of inflation and the lure of speculative profits. Stocks, during this period, are bid to higher and higher levels on little other than hopes and expectations.*

(In Chapter IX you will see how this three-phase principle was given a modern interpretation and applied to the major bull market which progressed from 1949 to 1960.)

5. *Conversely, a Primary Bear Market likewise consists of three phases. The First Phase represents abandonment of exaggerated hopes upon which stock prices were based when they reached their bull market peaks. The Second Phase reflects poor business and earnings reports as they steadily become worse. The Third Phase plunges the market to its final depths as economic deprivation forces many investors to sell against their wishes, regardless of price, in order to raise cash. This distress selling brought the 1932 bear*

market to a low close of 41.22 for the Dow-Jones Industrial Average— an unbelievable climax to the rapid deterioration of stock prices from a 1929 high close of 381.17.

6. *The Primary Trend is considered to be bullish as long as successive rallies of both the Industrial and Rail Averages penetrate previous peaks, and ensuing reactions terminate at a point higher than the preceding lows. Conversely, the primary trend is considered to be bearish if successive rallies fail to penetrate previous high points, and ensuing declines carry below previous lows.*

(Although this may be true generally speaking, the new Dow theory does not expect a continuous uptrend, or downtrend, all the time within the primary trend. Allowances are made for temporary interruptions of a psychological nature as discussed in later chapters.)

7. *Both the Industrial and Rail Averages must confirm any Dow theory signal for it to be valid. Conclusions based on a breakthrough of a previous high or low by one average—without confirmation by the other average—may well prove to be inaccurate.*

(My new Dow theory does not insist that the averages confirm at all times; however, this principle remains valuable on occasions.)

8. *The volume of transactions frequently provide valuable clues as to the market's course. An overbought market develops activity during declines, and becomes dull during rallies. An oversold market, on the other hand, is active on rallies, dull on downward movements.*

9. *Secondary reactions retrace a sizeable portion of the ground gained or lost by the previous phase of the primary bull or bear market. Hamilton put the degree of this retracing at 40-60%, Rhea at 33-66%. The public frequently mistakes these reactions as a reversal in the primary trend.*

(Under my studies of modern-day markets, it has become unwise to put any limitation on the extent or duration of secondary, or intermediate-term, reactions.

You will note that while Hamilton believed most secondary retracements would fall into the 40% to 60% category, Rhea began to feel the pressures of a growing emotional mass psychology in the marketplace and increased his probable retracement area to 33%-66%.

I believe that the mushrooming interest among the public in

the stock market and the one-way movements that this ever-increasing mass psychology creates does not permit us to put any kind of a limitation on secondary, or intermediate-term reactions within a primary bull market or secondary rallies within a primary bear market. Thus they may retrace any part, all, or even more than the preceding movement and still not affect the primary trend.

During the markets of Dow and Hamilton, in the early 1900's, the public represented an estimated 500,000 to 1,000,000 investors, a total which grew to over 5,000,000 investors at the height of Rhea's era in the late 1930's. Today we have well over 12,500,000 investors and the total continues to grow. In other words, the sophisticated buying and selling of the investor during Dow's day has now changed into what might be called one-way stampedes of emotional buying, or selling among the crowd today.

Inasmuch as forecasting market trends is now more related to mass psychology than ever before, and will continue to be even more so in the years ahead, a considerable portion of the pages to come will give some insight into this newest market problem which deals with mass psychology.)

10. *Inferences from any one day's movement cannot accurately be drawn. Only the pattern of several week's or month's movements may be interpreted, under the Dow theory.*

11. *A "line" is a prolonged period during which the price variation of both averages is confined to a range of about 5%. These horizontal movements indicate either accumulation or distribution of stocks, and it is a question as to which is the stronger force. The question is resolved when the two averages pierce either the upper or lower limits of the "line." If the upper limits are pierced, a further sharp rally is indicated. If the lower levels are violated, a forthcoming sharp decline is indicated. Conclusions must only be drawn, however, when both averages confirm a breakthrough.*

(With the great number of investors interested in the market nowadays, and the quickness with which news travels from all parts of the world, we are seldom confronted with the longdrawn-out lines of the Dow, Hamilton, and Rhea years. As this book will show, a correct diagnosis and interpretation of other technical and psychological conditions have grown more important for the analyst and investor to place an emphasis upon, in cases where

sidewise movements of "lines" are being plotted. When the averages plot a sidewise movement within a primary bull market, the longer such sidewise movements last, the better the base is established for the next upswing to come as the primary bull trend resumes. Dull volume usually accompanies such do-nothing movements, and then an increase in trading volume appears as the market moves higher. In a primary bear market, there is usually an increase in volume on the downside for a while at least as the bear trend resumes downward.)

12. *The movement of the Industrial and Rail Averages is not to be regarded as an infallible guide to speculators in individual stocks.*

(As a rule, the majority of stocks eventually will follow any broad movement in the averages, but movements in individual stocks are likely to be selective, to be delayed, and to come at times which are unpredictable as to their beginning, duration, or extent.)

13. *The stock market may be influenced on occasion by psychological uncertainties among the investor public, especially by events of major significance when they are unexpected or incalculable.*

14. *Primary bull markets have the characteristic of making their early beginning after a long bear market, or at a time when the market is completely sold-out, and public enthusiasm to buy is at an extremely low ebb. After the primary bull market has been going up for a good many years, it is likely to reach its final top only when, as Hamilton has said, "the edifice of speculation has been constructed sufficiently high for it to make a noise when it topples over."*

15. *Major or long-term movements of the Industrial and Rail Averages have a tendency to indicate a period of business prosperity ahead when such a prolonged movement is up, and a recession or depression ahead when such a major movement is down.*

Chapter V

EVOLUTION OF MY NEW DOW THEORY

Nothing is more certain than changing trends in the stock market, and an endless search for new methods to predict them.

These, then, are the basic principles of the Dow theory as developed during approximately the 42 years from about 1897 to 1939, and upon which I began to build newer concepts as a result of my research so that Dow's philosophy could be applied profitably to present-day markets.

Great changes are taking place in the nation's economic and political environments, and, to me, it always made sense that our investment procedures under the Dow theory should be adapted to conform to those changes. That is why, as I looked into this promising field of investigation during my younger years, I decided to devote my lifetime efforts to it.

As a very young man I knew that I was interested in the stock market. While a student at the University of Illinois, one of my weaknesses was that I often neglected my studies to read a more interesting financial page or book on investments. Although I studied engineering in my five years at the University, I refused an offer to take an engineering job and instead began as a $10-a-week board marker at the Indianapolis office of Thomson & McKinnon, a well-known brokerage firm.

That was in early 1933. The Bank Holiday was on, and money was scarce. Today I am convinced the job was well worth the 5½ years I gave it, in that it gave me an opportunity to study the market, learn about the investment business, and do some of the

research and studying that finally led to my becoming a registered investment advisor.

By the age of 40, I had worked in the Real Estate department of a bank and had been a salesman for several real estate and insurance companies. But one day I realized how much time I was giving to my stock market research, and that my findings were things that all investors should know. Consequently I began publishing *"The Dow Theory Trader"* advisory service in my spare time.

In June, 1948, as a newly registered investment adviser under the Securities and Exchange Commission I ran my first ad in *Barron's*. It was a small ad—approximately 1" by 2" in size, which cost only $16, but it brought in 11 inquiries. Out of these 11 responses came my first subscriber. He was a well-informed and successful Dow Theorist who lived in Ogdensburg, New York. Although this original subscriber is now deceased, his family still subscribes to the service.

During the early days of my service, people had little faith in my research and bullish interpretations, and long-term subscriptions were few and far between. At the end of the first year, I had only 9 regular readers. By the end of the second year, there were only 35; at the close of the third year there were only about 89 regular, paid-up long-term subscribers.

Needless to say, those first three years were costly, difficult, and anxious years. I had lost heavily in my starting capital. Being married, with two small children, my personal financial picture was discouraging. My savings had melted away to practically nothing; I borrowed to the hilt on my life insurance, and finally mortgaged my home. Finally, all my assets had gone down the drain—yet my faith in my new Dow theory methods remained strong and I was determined to see the service become a success.

One day my banker gave me a worried look as he said: "Schaefer, your idea for a new Dow theory doesn't seem to be working out. People have lost all confidence in the Dow theory. The market has been sluggish and not many people are ready to go along with your bullish views. At some point a little later on we may have to take a new look at your loan. Your expenses have been running considerably greater than your income for over three years now, and such a trend can't go on indefinitely."

I replied that while this was true, the service seemed to be

benefiting investors and I had no intention of giving up. I argued that after all, we were showing a slow but steady gain in subscribers. Also, I pointed out that under my interpretations the bull market was only in its first—and most slow and discouraging phase. And that the second and third phases should be much better. I confidently expressed my hope that another year or two would surely see the service in the black as the major bull market that I was predicting for the years ahead gained momentum.

This turned out to be the case. My banker and I were both relieved when at a point near the end of the fourth year (1952) the service began to mushroom at an exceedingly rapid rate and started to show a substantial profit. Today, after 12 years of a steady and almost unbelievable growth, our records show that during these years approximately 145,000 investors have enrolled for a 4-week paid trial subscription to the service, and well over 20,000 of these trial subscribers have at least temporarily become regular long-term subscribers. Today a good 50% of all my long-term subscribers—more than 10,000—have been with me for some time, many have remained fully invested all the way up, and continue to read the service each week as currently paid-up subscribers. In short, the new Dow Theory as outlined in this book has had a rapid growth—in fact it has truly spread like wildfire. Investors the world over have learned to recognize its truths, and I would estimate that my new Theory has helped no less than 10,000 long-term subscribers to handsome profits in stocks as the bull market progressed to new highs over the past eleven years.

There are many reasons why my new Dow Theory work has gained this widespread acceptance.

I believe that the long-range concept of investing, which is part and parcel of the new Dow Theory, has a fundamental appeal to most people. It makes sense, to the average person, to buy a diversified selection of sound common stocks when a long primary bull market is indicated—and then patiently hold these stocks and sell them only after a good many years, when they are overly-inflated in price and a downward movement in the market, of disasterous proportions, is indicated.

In-and-out trading is certainly not the best answer for the inexperienced investors, or those who cannot give the market very much of their time. All too frequently, during the past dozen years, we have seen a majority of financial writers turn bearish and

advise selling at low prices as the market declined temporarily. Then—after weeks or months of embarrassed silence while the market rose to new highs—these advisors suddenly became optimistic, and so confident again to bullishly and brazenly recommend purchases of common stocks at higher prices—with never an acknowledgement of their past mistakes. Brokers often benefit from this unprofitable cycle—but not the average investor.

As Charles H. Dow once put it, an investor who buys large quantities of stocks with good values when the market is low, and holds on to his position for years while the major trend is upward, often reaps the greatest rewards for his patience.

Remember this observation by Dow on patience in holding an attractive position while the main trend is up. I know of no other market philosophy which has proved to be consistently profitable. History has shown us that investors who have patiently held positions in good diversified growth stocks in harmony with a primary bull market can accumulate incredible wealth over the years as profits and income accrue.

Hence it is that the number one reason for the growth of the new Dow theory is probably to be found in the record of my service's correct forecasting of the Primary Trend.

As noted before, my extremely bullish market letters of June and July, 1949, appeared just a few days and weeks after the low day of 161.60 was registered on June 13, 1949 by the Dow-Jones Industrials. Since that time, and for the next 11 years, my letters have been consistently bullish on the Primary Trend. The stock market has borne me out, and I would say that the majority of my readers have benefited as they stayed fully-invested in the way I have counseled.

To publicize my newer concepts under the Dow theory, my record since 1949, and to obtain subscriptions to my service, I have advertised repeatedly through large ads in leading financial publications—*Forbes, Barron's, Financial World,* and *The New York Times.* I have frequently taken a full page at a time in *The New York Times,* and from five-to-ten pages at a time in the financial magazines so as to obtain maximum readership for what I believe to have been a vital bullish message to investors all the way up in the primary bull market underway since 1949. Thus has been the evolution of my new market philosophy.

Chapter VI

THE AVERAGES — HOW VALUABLE?

Learn to accept the fact that people make the market.

I don't believe I could have compiled my eleven-year record of accurate forecasting of the direction of the Primary Trend since 1949 had I relied on the day-to-day plottings of the averages alone—and it is here that I am at variance with some of the reasoning of Hamilton and Rhea, and that of some present-day Dow Theorists who, when forecasting, consider nothing more than the pattern of the averages.

Study of the averages themselves can be highly rewarding, I believe, but in my opinion a forecast based on their past movement cannot be conclusive. Predictions of events to come are more reliable if they can be reinforced by analysis of other technical, and more conclusive, factors, as I shall explain later.

As conceived by Charles H. Dow several years before 1897, the idea of utilizing the "averages" was simply an attempt to plot the general trend of prices and to study this trend over a period of time. There was never any intention of endowing these computations, and the trend conclusions derived therefrom, with any precise or infallible significance. Yet, as time moved along, the general Dow theory observations outlined in previous pages have been formulated, but these have had a tendency to vary in authority and usefulness as economic conditions changed from prosperity to depression, and back again, over the years.

Here is one example of the changes wrought by time: In Dow's

day, the Rails were a growth situation, and a truly healthy segment of the nation's economy. The railroads pushed further into the West, transporting materials, manufactured goods, and people in increasing numbers as the country grew. That is why Dow's averages, as first published in *The Wall Street Journal* in late 1896, gave emphasis to an index of 20 Railroad stocks, but measured only a group of 12 Industrials. While most investors preferred a good railroad stock or bond in those days, in recent years the rails have fallen into disfavor because of the many ills which have afflicted them.

Thus it is that today the Rail Average is still composed of 20 issues, but the Industrial Average was expanded to 20 in 1916, and then to 30 in 1928. It would not surprise me to see the number of issues in the Industrial Average expand to a total of 40 in years to come, reflecting this shift in investor interest away from the rails and to the industrials.

Moreover, as leading rails throughout the nation merge, thus reducing their number, and an increasing amount of freight is handled by truck and by plane, I believe that someday it will become logical to include the stocks of all leading transportation issues—trucks and airlines, as well as rails—in one consolidated "transportation" index.

Another change occurred in the Dow-Jones Averages in 1929 when an index of 15 representative utility stocks was added to the industrials and rails. This Utility Average played absolutely no part in the thinking of Dow, Nelson, or Hamilton because there wasn't any. Rhea ignored it, probably because it was not a part of Hamilton's thinking. But I have found it helpful in my predictions to keep an eye on the Utilities—a conservative group of stocks with a rather persistent record of gradual growth. There have been times of uncertainty and pessimism during primary bull markets when the majority of investors lacked confidence and refused to buy the industrials or the rails. But at such times a careful scrutiny of the Utility Average often disclosed that timid investment money began to filter into conservative utility stocks. This observation has been helpful to me at times in forecasting a resumption of the primary bull market since 1949 when confidence—then apparent only in the utilities—was later reflected by upmoves in the Industrial and Rail groups as well.

Since the attitude of investors, the results of industry's research, the news, and the economy change constantly, there can never be an average which is perfect or which will or can stay entirely satisfactory for long. For this reason, I watch *all* the averages, as well as the Dow-Jones Averages, but still I do not expect a high degree of perfection from any of them.

The averages also reflect the emotional thinking of investors

According to the Dow theory, from day to day, week to week, month to month, and from year to year, the averages tend to reflect the outlook for business, the earnings and dividend prospects for individual corporations, political events, and all economic news that might affect the stock market.

The new Dow Theory, however, assumes that anything investors think or believe about financial matters could be true or false, logical or illogical, and such knowledge is almost sure to be flavored and mixed, rightfully or wrongfully, with personal emotion.

For man is basically emotional. He is born with his emotions, but his constructive thinking must be acquired and developed as he grows from childhood until he fully matures.

And while it is true that a good percentage of all transactions are based on careful study and sound reasoning, much of what most people think nowadays conforms to what our managed economy leaders think in Washington, and is at least partly based on such emotions as fear, anxiety, anger, jealousy, caution, confidence, enthusiasm, and greed. It is these human emotional factors which so often account for the minor and sometimes sharp major interruptions within the Primary Trend of a market movement. They generally reflect the news, and are not indications of a change in the main Primary Trend, although many people are invariably misled by their own emotions into thinking they are.

The averages show what the trend has been

The modern school of Dow theorists look upon the averages more in the light of their being a useful recording of the past. The averages show what the trend has been—not what it will be in the future. Hindsight is very simple when you examine the

plottings of the daily, weekly, or monthly averages over the past.

But what we as an advanced school of Dow theorists are trying to achieve is foresight; we seek a logical prediction of what the market will do in the future. And since it is impractical to predict future trends with a high degree of accuracy from the past recording of the averages alone, we must incorporate other means to achieve this end. In the chapters which follow, we will see how it is possible to correlate certain technical and psychological observations with the Dow theory readings of the averages for more accurate and useful stock market forecasting.

Dow's three-trend concept is still valid

One of the most important of Charles H. Dow's concepts is still as true today as it ever was. That is his notion that the stock market moves in three separate trends, simultaneously, and that these three trends are interdependent, acting and inter-acting on one another, at all times.

The first, and most important of these three, is the *"Primary Trend"*—the long-term upward or downward movement in the averages which is generally referred to as the Primary Bull or Primary Bear market. Historically, these long upward, or Primary Bull Market movements have lasted from four to eleven years. The downward, or Primary Bear Market movements, on the other hand, have had a tendency to be shorter, more vicious, and to last from three to five years.

Ideally, a successful investor will remain fully invested during a primary bull market until it has run its full course, and then sell all his stocks so as to avoid any part of the next primary bear market which is sure to follow immediately after the completion of a primary bull market.

The second type of trend is the most risky and deceptive. It is the *"Intermediate"* or *"Secondary"* Trend, which runs counter to the basic, primary trend without actually reversing it. It may be quite drastic and last for a number of weeks, or a number of months, depending on the nature of the news, the general psychology of the public, and the technical condition of the market.

The Intermediate or Secondary Trend makes its appearance as an important decline within a primary bull market, or as a

sizeable rally within a primary bear market, usually when least expected. Its duration and extent are generally unpredictable for practical, successful trading purposes.

The third movement is the "*Minor Trend.*" This day-to-day or week-to-week fluctuation should be completely disregarded, as a rule, because it is caused by current news items and temporary unbalance in buying or selling.

Over the years, students of the stock market have compared Dow's three trends in the movement of the averages to the movements which take place in the ocean.

The long-term, Primary Trend may be compared with the ocean's main flow, the tide. The Intermediate Trend may be likened to the ocean's waves, and finally the Minor Trend suggests the ripples.

It is important to remember that, while they sometimes counteract each other, these three movements are always in action at any given time. Just as it takes the ocean's tide a long time to come in from its beginnings far out in the ocean, so it takes the long Primary Trend in the stock market a number of years to run its full course.

The waves and ripples, under our new Dow theory, are regarded as being totally unpredictable for satisfactory in-and-out trading purposes, and are simply a necessary part of the overall movement of the tide. For the investor trying to focus his attention on the Primary Trend, these temporarily opposite and less important movements tend only to mislead and confuse his view.

For example, as the major Primary Bull market progressed upward for the past eleven years since mid-1949, there were numerous instances, all the way up, where the averages violated previous lows and the Hamilton and Rhea school of thought believed that a new Primary Bear market was beginning and sold stocks. These instances came in 1951, 1953, 1956, 1957, and in 1960, yet the Primary Bull market since 1949 continued higher as predicted. By correlating my other technical studies with these deceptive movements in the averages, I was able to avoid these costly pit-falls for my subscribers, and we stayed bullish and fully-invested all the way up in harmony with the long Primary Bull Trend since 1949.

In early 1960 the Hamilton-Rhea school of Dow theorists turned bearish again, as they have done many times since 1949,

yet, while the Industrial and Rail averages violated their previous intermediate lows for a few days in March, there was no "follow-through" on the downside, and the market began to rally.

Several of the technical indicators that I will discuss in later chapters turned bullish. Thus, it was entirely likely that new bull market highs would come some months later as the primary bull trend since 1949 resumed upward again, and subscribers who remained fully invested and bullish all the way up were likely to reap even larger profits as the bull market resumed in future months.

Chapter VII

DOW'S PRIMARY TREND — BUILDER OF PROFITS

A position of diversified growth stocks held patiently throughout the life of a primary bull market, is the pathway to riches in the stock market.

I believe that the safest and most reliable procedure to the truly great and worthwhile profits in stocks lies in following the primary bull trend all the way up. Sixty years ago, in various of his articles on stock market trends and procedure, Charles H. Dow gave us the early beginning of a basic philosophy that helped many investors to build a fortune in later years when he wrote:

The market is always to be considered as having three movements, all going on at the same time .... In thinking about the market, it is necessary to think with reference to each of these .... The first thing for any operator to consider is the "value" of the stock in which he proposes to trade. The second is to determine the direction of the main movement (the primary trend) of prices. The third is to determine the position of the secondary (or intermediate trend) swing .... The day-to-day movement (or the minor trend) should be disregarded by everybody, except floor traders who pay no commissions .... In a majority of cases this method of choosing the time to buy, founded upon a clear perception of "value" in the stock chosen and close observation of the market swing underway will enable an operator to secure stock at a time and at a price which will give fair profits on the investment.

These excerpts from Dow's writings clearly reveal the under-

lying tone of what later became known as the Dow theory. We will now examine the development and newer refinements of Dow's philosophy on trends—more specifically, the Primary Trend—and see how it may be used in present-day markets to build profits in stocks.

Preconceived notions on market movements are dangerous

So far as I can ascertain from the original editorials of Charles H. Dow, he had an open mind and there was a great deal of flexibility in his thinking in regard to market movements. He emphasized the fact that the greatest profits came from holding stocks in tune with the long main trend even though the averages in his day did not stage the prolonged and sometimes vigorous swings such as those recorded in recent years. This flexible, unemotional, long-term thinking has set the tone for much of our research and investment procedure today.

We have learned much from the work of Hamilton and Rhea as well. Following in the footsteps of Dow, both Hamilton and Rhea, however, allowed their own emotional feelings to influence them when they attempted to do away with some of Dow's flexibility by pinning down the market and by setting their own preconceived limitations upon the probable movements of the market averages.

For example, as I see it, the two serious mistakes that Hamilton made came during the first phase of the great 1921-29 bull market when he regarded the 1921-23 upswing as a bull market within itself—and again in 1926 when the averages were slow in exploring new all-time high ground, Hamilton allowed his personal emotional feelings to influence him as he turned bearish simply because he thought the upward movement had gone far enough. As we will see later, the 1923-26 upswing was only the second phase of that great 1921-29 primary bull market, and the most sensational profits in most stocks were yet to come during the third phase.

However, William P. Hamilton was not one to allow his emotions and prejudices to rule for long. In 1921 as the third and final phase began, he quickly turned bullish again, disregarded his

former bearishness, fears, and other personal feelings, and rode the bull market all the way to the top before issuing his famous 1929 warning that the great bull market had ended. Hamilton's quickness in seeing his own errors, in my opinion, and his famous October 25, 1929 editorial in *The Wall Street Journal* called *"A Turn in the Tide,"* made him one of the greatest Dow theorists of all time. He had predicted the depression to come for the investment world.

Robert Rhea, Hamilton's successor in the history of Dow theory interpretation did much to improve Hamilton's work; however, he too made the costly mistake of putting probable limits on the market's shorter trends—for those who followed him—in trying to designate the probable extent of the secondary, or intermediate, market swings. In Rhea's case, the difficulty came when he said that the majority of secondary movements (the intermediate trend) usually retraced from one third to two thirds of the previous primary movement. This guessing as to how far any swing within a primary bull or bear market might go has been costly indeed to many people in their attempts to trade.

All the earlier statistics available, under Rhea's research, seemed to point to his conclusions regarding the month-to-three month swings, and to the primary trend itself. However, because the 1929 crash has imbedded untold fears in the minds of today's millions of investors, and recurrent war crises and the publicity given to newer weapons of war have made the public prone to an acute fear psychology, more recent observations of intermediate movements suggest that we must form an entirely new concept of such probabilities. Therefore, today, we place no limits whatever upon the temporary secondary or intermediate movements within a primary trend.

For example, a careful look at Fig. 1, shows that three intermediate declines from April, 1956 to October, 1957 occurred, and all retraced over 100% of the preceding advance. All of these temporary declines misled the followers of Hamilton and Rhea who interpreted each of them as the beginning of a new primary bear market.

Despite these temporary setbacks, the third phase of the 1949-60 bull market then proceeded to soar into new all-time high territory in late 1958 and 1959, very much as predicted by my

New Dow Theory which takes the market's phases into consideration and puts no limits on reactions within a major primary bull trend. Thus, we remained bullish through all reactions while the Rhea-Hamilton school was bearish and missed the beginnings of the 3rd phase, just as they did the 2d phase and the 1st phase of the primary bull market since mid-1949.

Therefore, today, our new Dow Theory allows the crowd to get as emotional in its selling or buying as it will—with no restric-

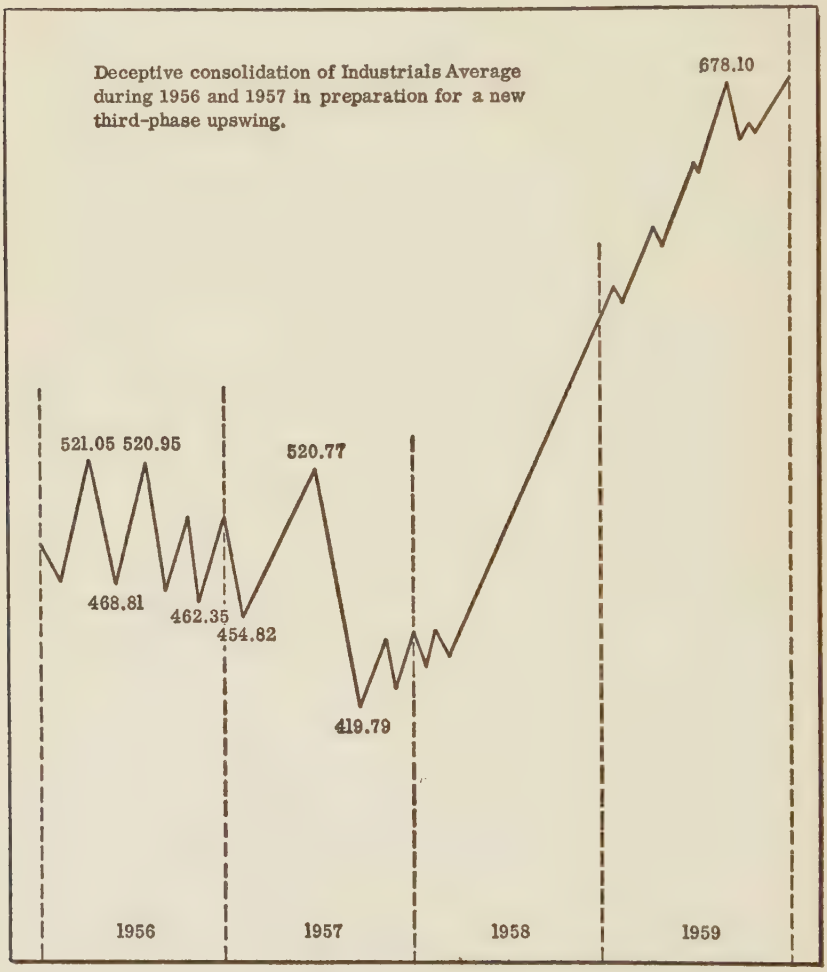

Fig. 1.

tions whatever upon the duration or extent of the secondary, or intermediate trend. In primary bull markets, when things get scary, we simply wait for the fearful to sell out, and then we assume that the main primary trend will resume as expected. In primary bear markets, just the opposite holds true.

Another area where both Hamilton and Rhea seemed to have placed too much emphasis is in their definitions of what constitutes a "trend" in the averages. I am in agreement with them on the general definition that successive rallies penetrating preceding high points, with ensuing declines terminating above preceding low points, offers a bullish indication. And I agree that the converse behaviour of the market movement offers a bearish indication. However, the New Dow Theory insists that current technical and psychological considerations must be taken into account too.

For example, when in late 1957 heavy selling came into the market because of the "Sputnik" news, while the Hamilton-Rhea school of thought quickly called it a new primary bear market, the modern Dow theorist attributed much of that decline, which carried well below the former low, to almost purely emotional and psychological reasons such as fear, worry, and anxiety. A careful consideration of all factors showed that the technical situation was getting increasingly more bullish and was gaining a terrific strength for a new third-phase rise to come.

And come it did, almost exactly as expected, to the tune of over 256 points on the upside for the Industrial Average within the next 20 months.

Thus, when either former highs or former lows are penetrated by the averages, the New Dow Theory demands that we also consider the psychological and the technical situation at hand before definite trend conclusions are drawn.

New Dow Theory places even greater emphasis on the primary trend

While it is of utmost importance for investors trying to benefit from the Dow theory to visualize Dow's three trends at any given moment, the modern Dow theorist will try to base the greater portion of his thinking on the long primary trend. If he can find

enough technical and psychological Dow theory assurances that the major or primary trend is up, then swift or sizeable reactions within a primary bull market will not alarm him. In fact the probability that the primary bull market remains in force will do much to convince him that such reactions offer excellent opportunities to buy.

As outlined in the preceding chapter, in primary bull markets the duration of a typical primary up-trend might last from four to eleven years, and as for its extent, anything can happen. Thus we can be sure that *any* bull market, once it has definitely begun, will continue upward for some years, irregularly, of course, with its full share of intermediate and minor reactions to interrupt the main upward movement.

During the past eleven years, one way in which I have helped thousands of investors has been to reassure them that the primary trend has indeed remained bullish. And I have consistently advised them to stay fully invested in a well diversified growth position. Those who have stayed fully-invested during all these years made some fabulous long-term profits in many stocks.

"When" to buy just as important as "what" to buy

Let us consider, for a moment, how the new school of Dow theorists might reason before taking a position in the stock market for the long pull.

In market history as far back as 1896, the Dow-Jones Averages in *The Wall Street Journal* have recorded primary bull and bear markets, alternately, over the years. All have been different, all have had their own peculiar characteristics. Every primary bull trend has been followed, corrected and consolidated by a new, and sometimes drastic, primary bear trend. Bear markets have followed bull markets just as surely as night follows day.

As a rule, in recent decades the primary bull markets have lasted approximately twice as long as the bear markets which came immediately after. In Dow's day, a four-year bull market was about all that he expected, in duration. However, as the nation grew, time brought the market place many changes, and primary bull markets have varied over the years but have tended to rise higher and to last longer. Primary bull markets following major wars in mar-

ket history have a tendency to last longer as government controls attempt to control inflation.

No two bull or bear markets have ever been alike. Nor will they ever be. Each must be regarded as an entity within itself. A primary bull market in stocks reflects an expected period of prosperity to come, for any number of reasons, to people and corporations. And the primary bear market that follows serves to wash out any and all excessive speculation. Bull markets breed higher prices until the situation becomes unreasonable, and the bear market which follows breeds lower prices until they finally become too low.

Since a careful observation of the averages suggests that the primary bear markets may last from approximately three to five years, it is wise to patiently allow a primary bear trend to run its full course, to get into a completely "sold-out" condition, before buying. Always be sure that the bear market has run its course. As a rule, a bear market is shorter and more drastic than the bull market immediately ahead of it. The greater the bull market, the greater will be the bear market to follow.

Once the time element of a primary bear trend is satisfactory in length, and the economy is severely depressed, and good stocks are clearly on the bargain counter—then, and only then should the search for, and the accumulation of, attractive values begin. Thus, under the Dow theory, the time to buy becomes the first consideration; then, and only then, are we ready to make a final decision on what to buy.

Under this same line of reasoning, however, the pattern of the averages alone is not sufficient evidence to give us a clear-cut "buying area" and, while it is not to be disregarded, we want all the best evidence available for a definite decision to buy.

Thus we now go a step forward to our more-improved Dow theory methods, to reinforce what may be seen in the averages. Some technical methods I have used to accomplish this will be discussed in the chapters that follow.

Chapter VIII

MY 50% RETRACEMENT CONCEPT

How it helped me predict the great 1949-60 Bull Market.

In my endless search for clues to the stock market's behaviour, I have developed a concept which at times has proved extremely useful.

This is my 50% Retracement Concept. While it is primarily helpful in reinforcing conclusions I have drawn from my other technical studies, it has given me great comfort and reassurance during the trying times when the market has fallen to low ground—in 1949, in 1953, in 1957, and again in early 1960.

My theory is as follows:

Whenever a primary movement of several years' duration is corrected by a secondary movement in the opposite direction which fails to retrace more than 50% of the preceding move, then we may conclude that the original primary trend movement will resume in due time.

However, if the secondary movement retraces more than 50% of the preceding primary move, then it may be assumed that the primary trend has reversed its direction and is pointing in the same direction as the retracing, or secondary trend. Moreover, this new primary movement will continue for a long period—for an undetermined number of years—before it has run its full course.

The following chart shows these two instances, in highly sim-

plified form (free of the weekly and monthly fluctuations which always characterize longer movements).

From my experience, the longer and bigger the preceding move, the more reliable the 50% Concept becomes.

Thus the concept can occasionally be applied to movements of only a year or two, but may not prove to be dependable. When the Concept is applied to sizable intermediate swings following a primary movement of several years' duration within the various phases of a bull or bear market, I believe it has considerable validity.

And finally, I believe the Concept had the best reliability when the end of a primary bull or bear market is compared with the extent of the previous opposite primary movement. I will now illustrate this type of application of the 50% Concept.

A bullish situation develops at the 1949 lows

Back in 1949, I analyzed the Industrial Average very carefully, and concluded that a major bull market was about to be born.

The previous 1942-46 bull market had been a wartime market which lasted a little over four years—about the minimum duration for a bull market under the Dow theory.

Moreover, the ensuing decline into mid-1949 had lasted about three years—which experience has shown us is about the minimum length for a major bear market to last.

I could conclude that a reversal in the primary trend might well be in the offing.

This feeling was strengthened by looking back at several rallies which came in 1947 and 1948. From the 1946 peak close of 212.50, the Industrial Average had fallen to 163.12 at its low in 1946, began to rally slightly for several months only to decline to 163.21 a few months later. In July of 1947, the senior average rallied to 186.85, before relapsing to 165.39. Then again in June of 1948, the Industrial Average achieved the closing level of 193.16, before dropping back after the Democratic party was victorious at the polls in November, 1948. This decline continued for approximately 12 months from its June, 1948 high. Yet, the Industrial Average was not showing the symptoms of a seriously bearish situation. Time was running out on the bears.

In June of 1949, I was bullish for a major bull market ahead based on my 50% Concept. For the fourth time in four years, the Dow-Jones Industrial Average dipped to an area above 160, and then found support—this time at 161.60, well above the 50% level of 152.71, as shown in Fig. 2. All of these declines, I noted, were accompanied by pessimism and bearishness among the masses, yet selling was drying up and this meant that the retracement from the 1946 peak had failed to exceed 50% of the preceding 4-year rise recorded by the 1942-46 bull market.

The mathematics are simple. From 1942 to 1946 the Industrials rose from a low close of 92.92 to a high close of 212.50—a total

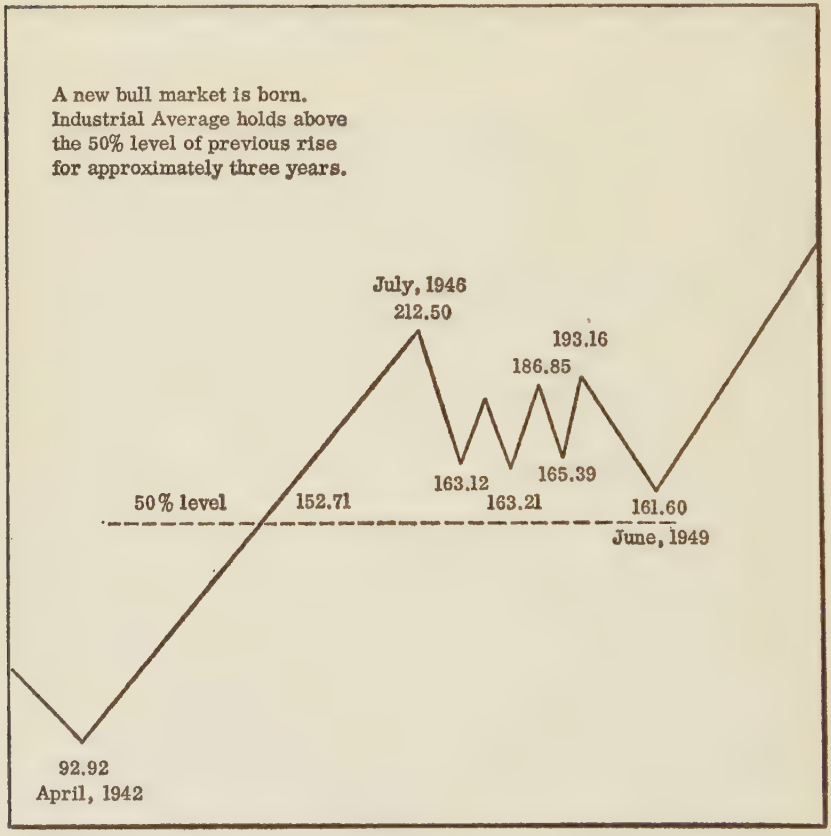

Fig. 2.

advance of 119.58 points. The four subsequent declines, ending with the June, 1949 low of 161.60, represented declines of no more than about 42%. (212.50 minus 161.60 = 50.90; 50.90 divided by 119.58 = 42%.)

The fact that during four irregular declines, the Industrial Average could retrace no more than 42% (less than 50%) of the preceding four-year bull market—was bullish indeed. And sure enough, the market was to bear out my interpretation—June, 1949 marked the low point and the beginning of the greatest stock market rise in U.S. history.

Here I must issue a caution, however. The 50% Concept is difficult to apply—*by itself.* There must be other technical indications, as outlined in other chapters, that the market move in question appears to have run its entire course.

For example, in June of 1949, the Industrial Average had retraced 42% of the 1942-46 bull market. However, I had to feel certain—as I did from my bullish conclusions formed by my other technical studies—that no further decline was about to unfold. For, had my other studies showed weakness and if the Industrial Average had slid another ten points or more in the next few weeks or months, then my 50% Concept would have dictated definitely bearish conclusions for the longer pull.

Thus the 50% Concept must be very carefully applied—with great care taken that it is not applied prematurely.

In June, 1949, almost all of my other studies had turned bullish and fairly shouted that the bear market decline since 1946 had ended. When the market held above the 160 level for a little while, I felt I could safely invoke my 50% Concept and say that the vast majority of my studies signaled a strong bull market in the making.

Thus the 50% Concept is most useful as a measure to confirm (or deny) conclusions which are based on the other evidence. The 50% Concept should never be used alone or as a starting point in market forecasting.

THE 50% CONCEPT PROVED REASSURING IN 1953

A look at the market charts shows that the Dow-Jones Industrials marched upward, more or less relentlessly, following the

1949 lows, until they reached a high of 293.79 on January 5, 1953.

Then the market went into a slow but orderly decline for approximately eight and one-half months. There were worries that industry would have to undergo a serious adjustment and might not adapt to a peacetime economy following the recently concluded Korean War armistice.

Under my 50% Concept, there would have been cause for alarm had the decline proceeded to a point which retracted half of the 132.19 advance from the 1949 lows to the January 5, 1953 high. This critical point was about 211 in the Dow-Jones Average.

Sure enough, after some eight and one-half months of irregular decline, the market rallied after touching a secondary low on September 13, 1953, of 255.49.

The upward surge of prices resumed. Because the reaction had retraced only about 29% of the preceding market advance, and since my other studies as discussed later in this book showed strongly bullish indications, I knew we were safely launched into an upward resumption of the great bull market.

THE 1957 "SPUTNIK" SELL-OFF PROVES VALUE OF THE 50% CONCEPT AGAIN

The market continued its almost unbelievable advance for several more years. By mid-1956 it reached the 520 level on two occasions—faltered—and then recovered to the same area by the summer of the next year, 1957.

Many investors were somewhat nervous over the speed and extent of the stock market climb. From the September 13, 1953 low close of 255.49, the Industrial Average had more than doubled when it touched what was to prove to be the primary bull market's second phase high of 521.05 on April 6, 1956. Moreover, this sharp 30-month rise had been a jittery one indeed and was in need of a lengthy consolidation, which came, and was characterized by five sharp intermediate declines, four of which recorded a lower close than the one preceding as shown in Fig. 1.

The public was skeptical about the high level of prices on each of these five intermediate declines. Their fears were heightened by the majority of financial writers and stock market services, which were bearish and pessimistic.

It was no wonder, then, that when during the last of these de-

clines the surprise announcement that the Russians had successfully launched the first earth satellite—their "Sputnik"—set off successive waves of fear selling in stocks which rocked Wall Street and was, once more, to test my 50% Concept in the midst of much emotional selling.

In a little more than four months, the Dow-Jones Industrials gave way by more than 100 points. This was the period when, as emotional fear grew, I lost some 3,500 regular subscribers who simply lost all faith in my reassurances that the direction of the Primary Trend was still upward, that a new third-phase upsurge was coming, and that the lower the market fell, better buying opportunities were thereby created.

Following a low close of 419.79 on October 22, 1957, the market showed rallying tendencies, and a refusal to react any lower. All my studies showed the market to be in an extremely strong technical position, and I felt more confident than ever that the market was prepared to recoup all its lost ground and soar upward into new unexplored high areas besides.

What did my 50% Concept say? The figures showed that the market had held firm at a point representing a decline of 38% of the 1953-57 advance (101.26 points' decline, after a 265.56 point rise). The 50% retracement had thus proved its value once again, and the majority of my subscribers who stayed with me during this critical period were again in line for some fabulous profits to come.

LOOKING AHEAD

In the chapters that follow, we will look more carefully at the Dow theory proposition that prolonged bull markets consist of three upward phases, and how I used this knowledge along with the 50% Concept to reinforce my predictions.

In the Spring of 1960, the market was well into the third and final upward phase of a long bull market which began way back in 1949.

The primary job for any market forecaster at that point, of course, was to time the top of this long bull market of unparalleled extent and duration.

Here is how the 50% Concept was applied to determine what would happen in the months ahead. As you will note, the Concept would not permit the identification of a primary bear market until

we were well into it. My other studies are of more value in identifying a "selling area" somewhere near the top.

However, once a significant drop in the stock market has begun, the 50% Concept in time should confirm the conclusion of my other studies that showed we had indeed entered a basic, primary downtrend in prices.

The key figure to keep in mind was the 419.79 level, which was the October 22, 1957 low from which the market had been rallying.

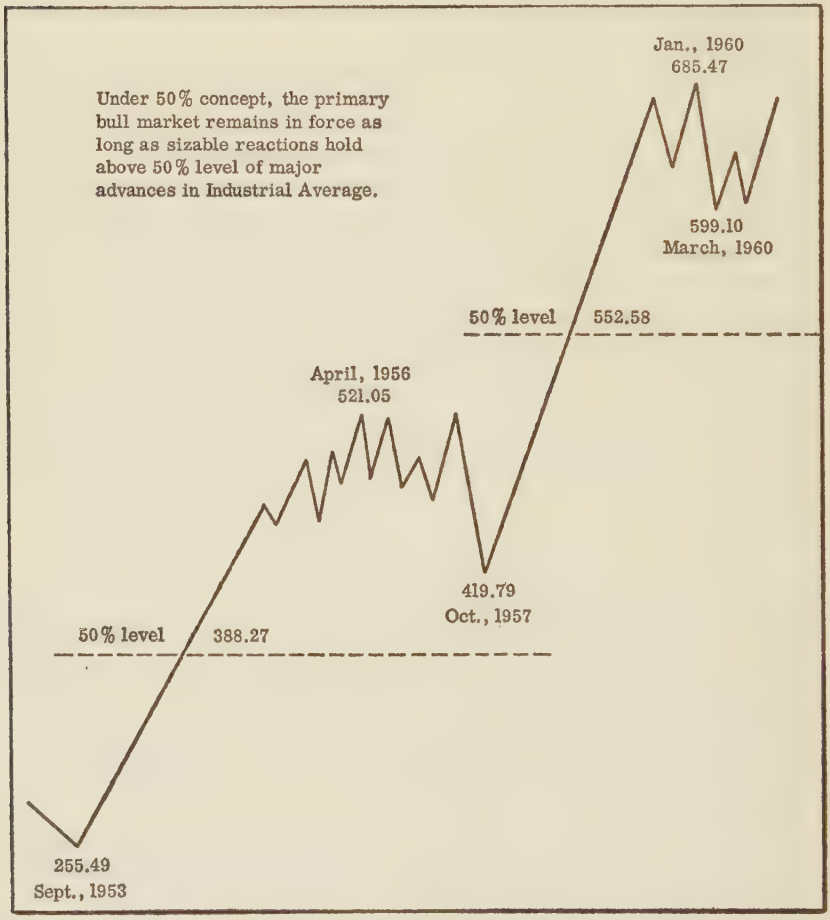

Fig. 3.

Application of the 50% Concept depended on the final peak which was reached.

In 1960 I reasoned as follows: Suppose the Industrial Average established a top at some theoretical level, let us say of 719.79, and then began to decline. This would represent a rise of 300 points from the 419.79 low close of October 22, 1957, which marked the beginning of the third phase rise.

Assuming that the senior average recorded a final high close of 719.79, I would follow the line of thought: "The market has now experienced a rise of 300 points. If the Industrial Average now declines by more than 150 points, or over 50% of its rise to a close lower than 569.79—then the existence of a primary bear market will not only have been confirmed, but this new primary bear market will continue for a long period, with sizeable rallies occurring from time to time, for an undetermined number of years before the new primary bear market runs its full course.

"If the market, on the other hand, eventually rises further—say, for convenience, the senior average goes up to 819.79—then the critical 50% reaction level to watch out for would be 619.79. This would represent a 200-point drop, or half of the 400-point rise.

"If apparently severe downward reactions begin, but then significant support is found before a 50% drop has been completed, we may, in each case, assume that the Primary Trend is still pointed upward, and that new highs must ultimately be reached provided the market continues to rally before the 50% 'last ditch fortifications' are cracked."

In Fig. 3, I have illustrated what the situation would be if the Industrial Average went no higher than its 685.47 high close of January, 1960. Any decisive decline by the senior average below the 552.58 level on any close would imply that the bull market was over and that a long primary bear market had begun and was to be underway for a long time to come.

However, as stated earlier in this chapter, the 50% Retracement Concept must not be considered alone in any prediction. In the spring of 1960, certain other technical considerations such as the short interest, the ratio of the total short interest to daily trading volume, mass psychology, my odd-lot studies, and my three-phase studies all seemed to be gathering new technical strengths and to imply that another upmove was coming.

Chapter IX

THE MARKET'S THREE PHASES

"The greatest success generally comes to the investor with the patience of seeing a major trend through."

The basic assumption of the Dow theory is that the market moves in trends which have had definite characteristics over the years, and that history will repeat similarly. One of the most reliable characteristics found in every primary bull or bear market of the past forty years is the evolution of the three broad phases which make up a primary bull or bear movement.

In an excerpt from an article written for and published by *Barron's*, June 25, 1923 issue, entitled "Three Stages of a Bull Market," W. P. Hamilton said:

> *In the first stage of a bull market, then, there is a return to known values. In the second stage, and often the longest stage, there is an adjustment to these values as they become more stable with improving general business, and it is this period which most frequently sees the longest and most deceptive secondary reactions in a major bull market. The third stage of the bull market is equally clear .... This is the stage where general confidence is discounting not merely the present values but future possibilities.*

The three phases divide a primary bull or bear market into three more-or-less-distinct areas which often lend themselves to careful study and a reasonably correct interpretation by an experienced analyst. When any primary trend is in its early beginnings, it is helpful to know that market history indicates that such a

major trend probably eventually will have three phases. Also, once a primary trend is well underway, determining what phase the market is in requires a study of what has gone on before, the present situation, and what may be expected in the future.

Robert Rhea once compared the market's three phases to the three age-groups of man: youth, middle-age, and old-age. He also said that it is just about as difficult to tell exactly when the market progresses from one phase to another, and where these phases are to end, as it is to say exactly when the life of an individual moves from youth to middle-age, or from middle-age to old-age. And of course, the most difficult of all is to say where old-age—or, the market's third and final phase—is to end. In my opinion, one of the most important contributions of Hamilton and Rhea was their belief that the stock market's primary bull and bear markets consisted of three phases.

It is easy to scoff at such an idea as much too simple in nature. After all, detractors of the Dow theory argue, the number "Three" has always been endowed with mystical significance of some sort or another. They cite the Bible, which is studied with examples from the basic idea of the Trinity on down to many lesser instances. The Hindu religion worships three gods which are equal in stature (Vishnu, Krishna, and Siva), Caesar divided Gaul into three parts, and so on ad infinitum.

However, Hamilton and Rhea definitely did not practice numerology. Instead, their 3-Phase findings were based on acute observations, and were later proved out by the bull markets of 1921-29 and 1932-37, and 1942-46. It is most interesting to observe that the bull market since 1949 fell into the 3-Phase pattern perfectly.

Why are there precisely *three* phases? The answer may best be found in acquiring an understanding of the business and psychological factors which comprise each of these phases. Let's examine them:

Primary bull markets have three long phases

Bull markets are born after a bear market has run its course and during a period of business stagnation. The stock market is sluggish, uninspiring and in the doldrums, and volume is so low that

brokers generally have a hard time making ends meet.

At such times, the market has been drifting lethargically to ever lower levels, until finally a sort of equilibrium is reached. Even the worst news fails to depress the market any further. On the other hand, there is no response to good news either.

Pessimism is widespread; many companies are passing their dividends. However, the stock market is so depressed that yields of 7% or 8% or more are very common, and shrewd investors—who have the means—wisely begin to accumulate stocks.

Gradually, more and more sophisticated investors begin to realize that stocks appear to have ended their long downward move—and may be significantly under-priced. And although business is about at rock bottom, there is reason for mild optimism that the worst is over and that a recovery may begin before too long.

A few seasoned investors and some institutional buyers begin to accumulate, and prices advance slowly. Few people realize that a bull market has begun, however, as at the beginning it is always a very slow and gradual process.

Such is the start of the *First Phase* of a bull market. It represents more than anything else, *an accumulation of a bull market's greatest values by experienced investors and a revival in their confidence in the future of business conditions.* Later in the first phase, even the public gets a little confidence, and there is usually a small balance of odd-lot buying from time to time.

Since market swings are always subject to cycles of overoptimism and overpessimism, this first phase climb is invariably overdone, even by seasoned investors. A pendulum-like reaction eventually sends the first phase downward into a correction, and it is accentuated as fear of an even greater decline grips the most timorous investors and they sell at least a portion of their stocks.

Before too long, however, investor confidence returns and the resulting demand for stocks brings this reaction to an end, and even though the general public remains fearful and cautious, the studied investor resumes his accumulation of better-grade stocks and the upward movement in prices resumes.

This is the *Second Phase*, and as it progresses upward, the public becomes a little more encouraged than it was in the first phase as business, earnings, and dividends improve. We will see in

Chapter XII that odd-lot buying gradually improves and comes to the front vigorously at times towards the end of the second phase, but as Hamilton observed: *"It is this period which most frequently sees the longest and most deceptive secondary reactions in a major bull market."*

The second phase of the long 1949-60 bull market ran from September 13, 1953 to October 22, 1957. I often thought of how true Hamilton's observation was as the second phase experienced seven drastic and deceptive secondary (or intermediate) reactions from late 1955 to late 1957. Many a timid investor was deceived by the fearful reactions of those days—yet, once the second phase was completed, the market went on to stage its third up-phase, very much as expected under my three-phase studies of primary bull markets.

In due time, of course, regardless of the various "shake-outs" that might occur during a primary bull market's second phase, because of the tendency of newly interested investors to buy near the highs of the second phase, a final downward shake-out occurs. As in the fall of 1957, this final reaction is a time for almost universal pessimism, and is invariably more severe than the reaction which marked the end of the first phase.

In time, however, stocks have once again moved from weak to strong hands, the final sell-off grinds to a halt, and the *Third Phase* of our major bull market begins. Back in October, 1957, it was the emotional fear news of the successful launching of the Russian "Sputnik I" that caused the public to panic and sent the market tumbling down to its final, sold-out low point from which the fantastic third phase of the sensational long-term bull market began.

As we see in later chapters, the public became almost hysterically bearish and fearful, the odd-lotters sold and sold short in an unbelievably huge volume, and the total short interest zoomed up to a new record all-time high as the third-phase upsurge slowly began in late 1957 and early 1958. Although I predicted a huge third-phase upsurge in 8-page ads run near the extreme lows during October, 1957, in *Forbes, Financial World,* and the *Magazine of Wall Street,* very few people believed it was possible that such an upsurge could come. My bullish 8-page ad in the *Magazine of Wall Street* at that time (October 26, 1957 issue) on pages

180 through 187 received hardly any response from that magazine's readers when its publisher who was so intent upon keeping in tune with the bearishness of the times (only 4 days after the October 22, 1957 low close of 419.79 for the Industrial Average) saw fit to emphasize the magazine's bearish opinion by printing, on page 123 of that same October 26, 1957 issue, a special notice which said, that they *want to make clear that they were not in agreement with Mr. E. George Schaefer's prognosis of the market outlook, as contained in his advertisement running in this issue.*

Perhaps many readers of this book will remember this 8-page ad as run in *Forbes, Financial World,* and the *Magazine of Wall Street* during that fearful month of October, 1957 while most analysts and the public were so panicky and bearish regarding the market's future. In bold type the heading of this ad said: *"Is Market Now Ripe for Rampant 250-Point Upsurge?,"* and then the ad went on to discuss the many reasons why a new third-phase upsurge was expected. And, sure enough, from the 419.79 low close of October 22, 1957 the Industrial Average rose to a close of 678.10 on August 3, 1959—an upsurge of 258.31 points in less than 22 months!

I attribute most of my ability to forecast this early beginning of an expected new third-phase upmove with a reasonably high degree of accuracy to my 3-phase studies of primary bull markets. And, remember, no other analyst (that I know of) came out with any such 3rd phase prediction in 1957. Many of the subscribers who had the experience and knowledge to combat the almost overwhelming bearish mass psychology at the 1957 lows, and who stayed fully invested and bought more stocks near those lows, had some beautiful profits to show for it.

It was interesting to me to see that in 1960 many financial writers and services were writing about the three phases of the great bull market since 1949, yet many of these same writers were expressing entirely different views in 1953 and again in 1957.

Another major well-known financial publication rejected the 8-page bullish ad, even though it would have benefited their readers to see the bullish side too, and the ad would have brought in approximately $8,000 in advertising revenue to the publishers. I had hoped so strongly that this publication would run the ad to counteract some of the fear psychology and rabid bearishness that

prevailed at the October, 1957 lows, just as our new third phase upsurge was being born.

My purpose in relating some of these experiences is to show readers just how gloomy and pessimistic the majority of investors can get during the early part of the three phases within a primary bull market. My bullish new Dow theory, therefore, withstood an acid test in late 1957 and early 1958, and I am positive that many thousands of my regular subscribers benefited handsomely.

I also estimate that not less than 500,000 investors read and studied my bullish interpretations as outlined in the 8-page ads run in *Forbes, Financial World,* and the *Magazine of Wall Street,* and in the reprints of these large ads as mailed out to several hundred thousand additional investors during that late 1957 and early 1958 once-in-a-lifetime buying area. Out of an estimated one-half million readers in these two groups, I further estimate that in addition to those who became 4-week trial subscribers, approximately 3%, or possibly an additional 15,000 investors, received some helpful, constructive support from these ads in their investment thinking during the fabulous third-phase upmove which followed.

A characteristic of the third and final phase of a primary bull market is that slowly but surely the public swings from an attitude of extreme caution to an attitude of rampant bullishness. Financial analysts and writers almost unanimously become more and more optimistic as the third phase progresses upward. Talk of a "new era," or a "new permanent plateau" for business and profits is not unusual. Finally, as stocks continue to rise, buying power among many would-be investors is generated by little more than *hopes and expectations.* As one skeptical old-timer once put it—at the very end of an unusually speculative third-phase buying spree, some stocks begin to sell at prices which appear to discount not only the future but the hereafter.

Thus, in primary bull markets, it becomes important to study the market's three phases, and to play your investment program accordingly. While it may be difficult to make your diagnosis and interpretations precisely, nevertheless, it is often possible to be reasonably correct in saying what phase any particular bull market is in and to predict approximately what might be expected in the future.

Phases of bear markets are shorter and more drastic

Once a primary bull market has had what logically might be regarded as being three typical phases, as outlined in the foregoing pages, then the new Dow theory begins to anticipate a coming bear market. A few shrewd investors generally realize that the market has climbed to heights which are totally unjustified. Moreover they realize that business has moved in cycles throughout history, and always will under our system of semi-free enterprise.

Thus the combination of record high prices, and a realization or hunch that the economy is due for an eventual downturn, tempts them to sell their stocks and salt away their profits while an uninformed public continues to ravenously buy stocks at inflated levels.

Many of these foresighted investors act a little prematurely, as prices continue to rise after they sell their holdings. But as discretion becomes the better part of valor, for an ever larger number of wise investors, selling pressure mounts and the market finally "tops out." Few people realize the bull market has ended, however, as prices merely drift downward for a few weeks or months, only finally to give way drastically under a deluge of panic-motivated sell orders.

Thus a new primary bear market begins. The violence of the collapse contrasts strongly with the quiet and unspectacular beginning of the bull market many years before.

A bear market usually sinks sharply and decisively through its first and second phases (sharp and sudden rallies nonwithstanding) and finally grinds to a standstill as the third phase comes to an end after some three or more years have passed.

The process of the bear market collapse was succinctly summarized by Rhea, who wrote: *"There are three principle phases of a bear market: the first represents the abandonment of the hopes upon which stocks were purchased at inflated prices; the second reflects selling due to decreased business and earnings, and the third is caused by distress selling of sound securities, regardless of their value, by those who must find a cash market for at least a portion of their assets."*

The end of this third phase brings us, ordinarily, to the beginning of the first phase of the next major bull market—as described a few pages earlier.

I say "ordinarily," because the market is *not always* engaged in a major bull or major bear market. There have been certain isolated periods in history—some of them quite extended—when the market was subject to aimless, uncertain swings, and for this reason, I would say that not all markets will always be subjected to Dow theory three-phase analysis.

For example, after the short bear market collapse of 1937-38, the market moved erratically, reflecting war uncertainties, doubts about New Deal policies and their constitutionality, labor strife, and many other cross currents.

Then too, the bull market of the war years (1942-46) precluded an exacting three-phase Dow theory analysis of the market, since the future in times of war can no longer be accurately forecast by the movements within the market. The fate of business hinged on the fate of the nation and both hinged on day-to-day developments and progress in the war.

But except for these war years, Dow's three-phase analysis of bull and bear markets during the past forty years has proved extremely useful and profitable to investors who have successfully oriented their position during these market movements.

But although bull markets and bear markets all consist of three phases, they are very unlike one another in many other respects, as we shall show.

Thus you will note from the chart on Fig. 4 that each successive phase of the 1921-29 bull market was longer in duration than the one preceding, greater in extent, and more speculative in nature as the 1929 top was approached.

However, it is important for investors to realize that no two bull or bear markets are alike. In the bull market which has been in progress for the past 11 years, the first two phases are easily detected as we observe the Industrial Average since 1949. Yet, the pattern of these phases is different, as all must be, the primary bull market has been restrained and prolonged, and it was a difficult problem to predict just how and where the 3rd and final phase underway might end.

I believe this element of restraint in the 1949-1960 bull market was brought about largely by governmental limitations of many sorts on stock market credit. Margin requirements, for example, were 90%, vs as little as 10% at the time of the 1929-crash. Pyramiding through misuse of bank credit to buy stocks was also

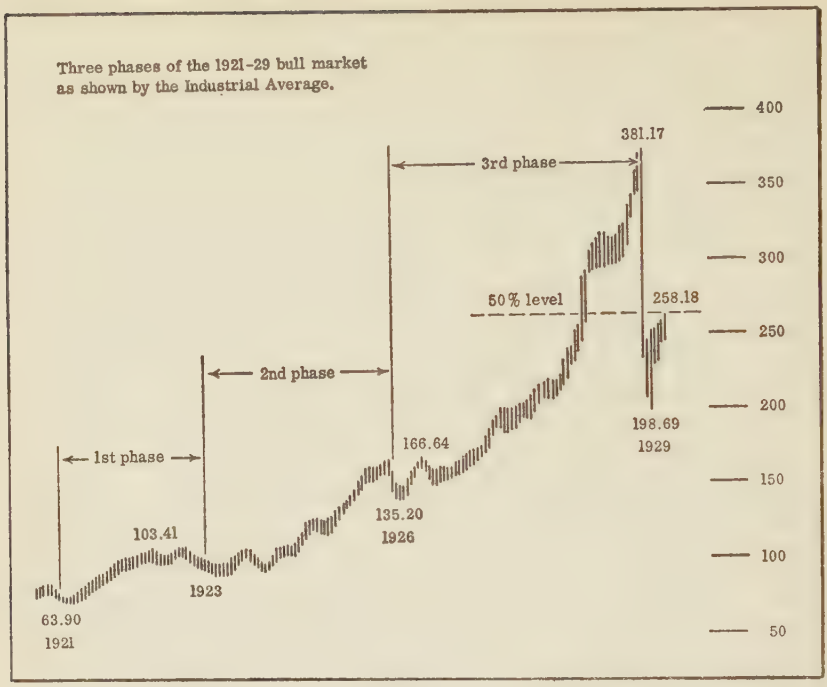

Fig. 4.

greatly reduced. And finally, the memory of the 1929-32 debacle, and consequent skepticism, may have caused many investors to shun stocks completely throughout the entire recent 11-year rise.

In any event, we knew in early 1960 that we were well along in the third and final phase of the greatest bull market of all time. The three-phase concept of market movements gave my new Dow theory subscribers great comfort during the severe 1953 and 1957 reactions. Thanks to the early observations of Hamilton, and Rhea, we could adapt their reasoning and recognize these declines for what they were—secondary, or intermediate, reactions rightfully marking the end of the first (in 1953) and second phases (in 1957) of the primary bull market which began in 1949.

During both of these sharp intermediate reactions, the great majority of financial writers and stock market services, knowing little or nothing of our new improved Dow theory, were pessimis-

tically predicting a big collapse in stock prices. Not one, that I know of, in 1957 expected or discussed the possibility of a major third phase upmove ahead. I knew they were wrong, and that the market would turn to the upside again—despite week after week and month after month of bearish market predictions, and the great fears generated among the public, which finally compelled many to sell at a loss near the lows.

In early 1960 we knew that since the third-phase boom developed about as expected, once the market started down and retraced more than 50% of the primary advance since October, 1957, or below the 552.82 level as shown in Fig. 3, we would be well started on the downward path of a severe bear market and depression ahead. If, however, the 552.82 level remained unviolated and the Industrial Average moved higher to a level above its Jan., 1960 high of 685.47, then the 50% level in question would be calculated from a new bull market high and would be higher.

Before such a drastic downward turn occurred, of course, followers of the modern Dow theory would look for rampant speculation and to the other technical indications outlined in these pages that suggest that a prudent "selling area" has arrived, one which will permit them to dispose of common stocks well before the final peak at good prices, hopefully within 5% to 15% of the bull market's "top."

Much of the credit for the gains which we hope to salt away in the not-too-distant future will have to go to our Three-phase analysis of the 1949-60 bull market. Without the knowledge that three up-phases would probably occur, it would have been much easier to succumb to our emotions of fear, caution, or anxiety and we might have sold out on any of the severe reactions all the way up since 1949, and especially in 1953, or in 1957.

In Spring, 1960, we had progressed well into the 3rd and final phase of the primary bull market since 1949. Fear and uncertainty were uppermost in the minds of many investors. The Hamilton-Rhea school of thought believed that the 685.47 high close for the Industrial Average on January 4, 1960 was the top and that a primary bear market had begun. This was nothing new, however, since they believed the same thing in 1951, 1953, 1956, and 1957. Yet, I was not convinced that another and perhaps final upmove

to new all-time highs would not come later in 1960 and in 1961.

A careful look at Fig. 5 will reveal the three phases of this prolonged bull market since mid-1949. You will note that the first and second phases lasted slightly over four years each. Government controls on credit, and various statements from people in high places served to keep sentiment in the stock market from running too far either way.

Yet, 1960 was an election year. Automation was coming fast. Unemployment was likely to become greater, even though the year, generally, was a prosperous one for most corporations. The problem was to promote a more rapid growth for the economy so that more people could be employed, instead of becoming unemployed. For this reason, it was likely that the Federal Reserve

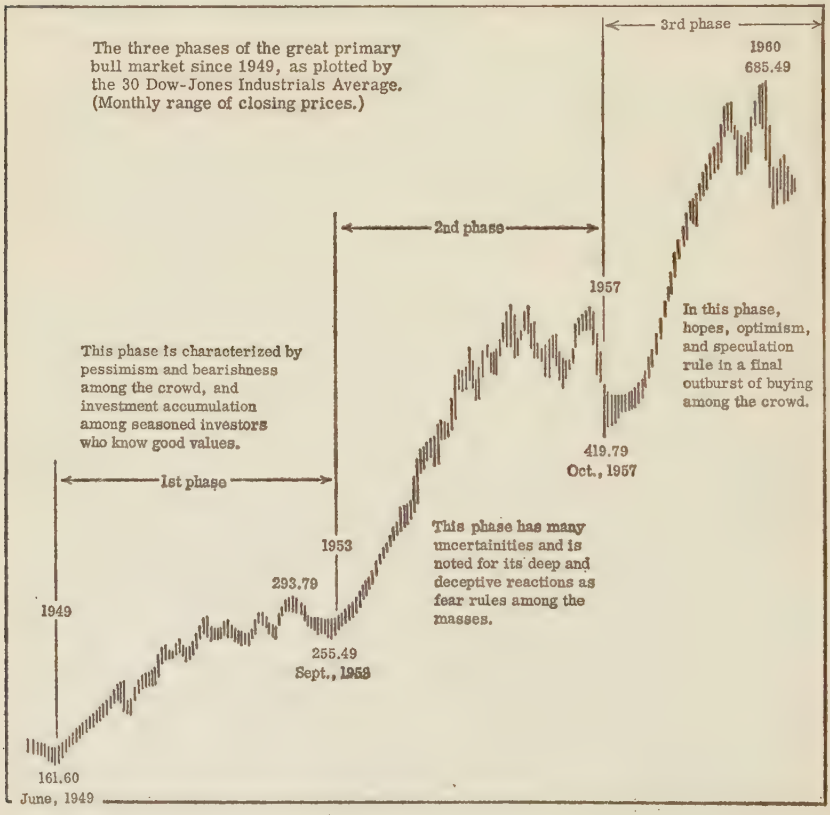
The three phases of the great primary bull market since 1949, as plotted by the 30 Dow-Jones Industrials Average. (Monthly range of closing prices.)
3rd phase
1960
685.49
2nd phase
1957
In this phase, hopes, optimism, and speculation rule in a final outburst of buying among the crowd.
This phase is characterized by pessimism and bearishness among the crowd, and investment accumulation among seasoned investors who know good values.
419.79
Oct., 1957
1st phase
1953
293.79
This phase has many uncertainities and is noted for its deep and deceptive reactions as fear rules among the masses.
1949
255.49
Sept., 1953
161.60
June, 1949

Fig. 5.

Board would adopt more liberal credit policies in due time, and that the 3rd phase of the great bull market since 1949 would have another sizeable upswing before the final top of this bull market was recorded.

Although it is reasonable to assume that there may be another upmove from the March 8, 1960 low close of 599.10 in the Industrial Average, it is well to remember that advances in the final stages of prolonged bull markets are generally highly selective. Not all stocks record their bull market highs at the same time, nor do they wait for the Industrial Average to establish its final top. Being interested in 1929, I made a study of market prices at the September 3, 1929 high close of 381.17 for the senior average as compared to what the prices for those same stocks were at their close of January 2, 1929—eight months earlier. I found that less than 40% of all stocks listed on the New York Stock Exchange were selling at a higher price on September 3, at a time when the Industrial Average recorded its peak, than on January 2. In other words, over 60% of all stocks were lower than their January 2 close while the Industrial Average was at its extreme high.

There is a lesson to be learned from this. At this high area of the current 3rd phase upsurge it may be well to discipline yourself to take a handsome profit and to be satisfied. As the coming year moves along, be glad to take any attractive profit. There is no way of knowing exactly when any stock might touch its high point. If you have a good run-up in what you hold during the final stages of today's 3rd phase, let the experience of 1929 be a lesson for you. Even if the market goes higher, this primary bull market has gone on since 1949 and it won't continue forever. Patience in holding cash, or a liquid position in short-term government paper, may be very rewarding to you once this 3rd-phase boom has reached its zenith and the next primary bear market begins.

Another observation to be made from Fig. 5 is that each phase becomes sharper and more pointed in its top area. Thus, the first phase has a very gradual rounding-over top. The second phase is a little more pointed since speculation increased during several of its intermediate tops. Now the third phase is already showing a fairly pointed peak formation which may, or may not, be the final top. Since the time element of these phases is longer than what we

have up to the present in our third phase, the odds favor another sharp upswing to an even more pointed or "spear-head" top at much higher levels under the over-all pattern that seems to be fairly well set for the three phases of this primary bull market since mid-1949.

Chapter X

THE YIELD CYCLE

Good growth values and attractive dividend yields combine to make opportunities in the early stages of a new bull market.

It is estimated that, over the long pull, our nation's economy has been growing at an annual rate of about 3% to 3½%. There has been a similar long-term rate of advance in the average price of better-grade common stocks, and their dividends.

Growth in our economy is uneven from year to year, of course. Periods of rapid growth and boom are generally followed by recessions or depressions. And stock prices fluctuate much more widely over the years, because they respond to bull and bear markets, to changes in investor psychology, to the supply of funds available for investment, to trends within industries, to the business cycle, and to the management of the companies themselves.

At the beginning of a Primary Bull Market (which, of course comes at the end of the preceding Primary Bear Market) market psychology is depressed, prices are low, and dividend yields may equal 6% to 8% or more for good, high-quality stocks, despite the low level to which dividends have fallen.

Recently, one of my subscribers asked, *"Why is it that dividend yields are always the lowest when the stock market looks the best, and are at their highest point when stocks look the worst?"*

The answer is, of course, that when the buying public is enthusiastic about stocks it buys—not on values and sound reasoning —but on hopes and expectations. Thus, a long primary bull market finally pushes stock prices too high on a basis of their cur-

rent dividends, and since the dividend yield is the ratio of the current dividend to the current price, dividend yields approach their lowest point when a primary bull market has been raging for a long time and stocks have become attractive to a speculative public.

During a long primary bear market, on the other hand, mass psychology finally becomes so depressed that very few are willing to buy, distress selling is apparent on all sides, and dividend yields (even though most companies may have been forced to cut their dividends) work up to high levels at a time when the public has become totally disinterested in the stock market.

Near the lows of the bull market which began in July, 1932, for example, wise investors realized that the severity of the preceding bear market had created some real values, and that they could invest their funds in high-grade growth stocks yielding even 10% or better. Then these investors could sit back, exercise patience, and over the years enjoy increasing dividends, stock-splits, spin-offs, and capital appreciation as the post-depression recovery, in harmony with the nation's long-term economic growth, enhanced the value of their investments.

Although the year 1932 provided the best opportunities for rewarding investment, the recession lows in 1938, 1942, and 1949 provided outstanding bargains as many growth stocks were available in those years at yields of 6% to 8% or more.

Bull markets outrun economic growth

Once a bull market gets underway as stocks begin their long, irregular upward climb, it is well to remember that dividends are eventually bound to be increased as business improves. But it is important to realize that most bull markets have a way of discounting the future and outrunning these dividend increases as time moves along. Finally, as the top of the bull market is approached, a speculative psychology prevails, sound values slowly begin to vanish, and dividend yields usually become unattractive to knowledgeable investors as the prices of stocks soar.

At the peak of the bull markets which ended in 1929, 1937, and 1946, the average dividend yield of stocks in the Dow-Jones Industrial Average fell to less than 3½%. Similarly, in the middle

of 1960, common stocks were yielding less than 3½%, on the average—which indicated that the bull market had begun to outrun the nation's economic growth and that extreme caution was in order.

As can be seen from the Chart on Fig. 6, dividend yields for the 30 Dow-Jones Industrial Average have fluctuated widely over the years. For this reason, it becomes the problem of investors to correlate attractive yield areas with buying areas for a bull market ahead.

Thus at the 1929 bull market peak, the 30 Dow-Jones Industrial stocks yielded an average of 2.9%; near the 1937 top the average of these 30 stocks yielded about 2.8%; in 1946 they yielded 3.2%; and in early 1960 they dipped to about 3.0% (a point that suggested that we were probably not too far from the peak of the 1949-60 bull market, in my opinion). I think that when the current bull market finally ends, dividends will have been increased as business booms during the late months of the bull market, but the prices of most stocks will have soared upwards out of proportion to these increases; therefore, we will see a dividend yield for the 30 Dow-Jones Industrial Average stocks drift to 3% or less at the top.

Similarly, at the extreme bottom in 1932, stocks yielded about 10.2%; at the 1942 low point they yielded about 7.8%; and at the 1949 lows, about 6.9% for the Industrial Average. Thus, it can be seen that a careful observation of *The Yield Cycle* plus the ability to catch stocks near the bottom of a bear market at high yields, and to hold them all the way up during the next bull market, before selling, may be highly rewarding from a dividend income point of view—not to mention the great capital appreciation that comes with a long primary bull market.

Charles H. Dow had the foresight to warn that the stock market was vulnerable whenever yields declined below 3½%. How well history has borne his forecast out! Since Dow's day, government policy has played a decisive role in yield structures. Deficit financing and other inflationary forces—especially the swelling of the nation's money supply necessitated by World War II—have tended to increase prices, to make stocks more attractive, to help create the long bull market underway since 1949, and to depress the levels of dividend yields which stocks provide.

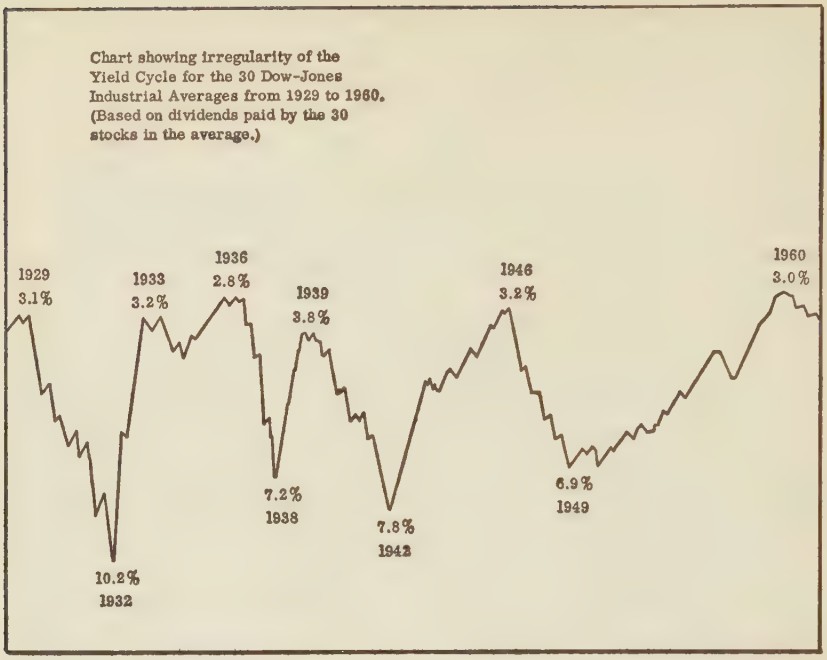

Fig. 6.

The yield cycle is highly irregular, but important

A look at the chart on Fig. 6 shows that there is no regular pattern to changes in The Yield Cycle. However, the intelligent investor can utilize the fundamental observation that the market has historically shown itself to be in low ground when dividend yields are in the 6%, 8%, to 10% range, and in high ground when they are less than 3½%. He will combine his yield observations with the various technical considerations and the Dow theory philosophy discussed here and decide whether stocks should be bought, or just held—or sold, and avoided. The special market studies outlined in the chapters which follow will have an important bearing on these vital decisions.

Thus *The Yield Cycle* is one more of the useful tools which permits us to invest on a scientific basis rather than an emotional one.

With the confidence that stems from these time-tested technical tools, we are less inclined to succumb to our fears and to foolishly sell our stocks during the many vicious, rapid "shake-outs" which always interrupt a primary bull market. We are also less inclined to invest prematurely during the sharp rallies which frequently arouse a temporary feeling of bullishness and obscure the downward direction of a long primary bear market.

Since the middle of 1960, the yield cycle has been broadcasting an important message of caution, and we know that the end of this long bull market is not too far off. My advice to the new, inexperienced investor would be to heed the warning of the yield cycle, along with the other signs of danger ahead as may be seen from the length of the primary trend (1949 to 1960), the fact that the market currently is in its third and final up-phase, the low short interest-daily volume ratio, the size of the huge wave of odd-lot buying, and the strong probability that—after this primary bull market has run its full course—a collapse of stock prices and a major depression in business will set in.

After the collapse comes we shall watch for the end of the ensuing primary bear market. Eventually dividend yields of 6%, 8%, to 10% or more will become available and we will know that the light on one of our technical indicators has switched from red to green. Finally, when the 3-Phase Study, the 50% Concept, and other indicators still to be discussed also turn bullish, we will know that at last the time to buy stocks has come, just as it came near the lows in 1932, in 1942, and in 1949.

Remember that, although the timing and accompanying circumstances always vary, the stock market has been forever subject to wide, vicious swings in the yield cycle. Eventually, as history repeats, dividend yields of 6%—or perhaps 8% or 10%—will once more be available. When the rest of our indicators show a turn to the upside ahead, stocks may then be bought, and held for better and better dividends and appreciation in value as the new bull market unfolds. Investors, then, will once more be amazed at how much these dividends will be increased during the next primary bull market, and how high stocks will go.

This has been the road to many a fortune since Charles A. Dow's theory came to the attention of investors nearly 60 years ago.

Chapter XI

THE RATIO OF SHORT INTEREST TO DAILY VOLUME

Investment decisions sometimes are based upon factors which indicate that the crowd is vulnerable.

All valuable stock market indicators represent different ways of keeping an eye on what other investors are doing. And then, it is up to you to make an appraisal of what they indicate. The ratio discussed in this chapter is no exception. However, while most other technical market tools focus on the stock buying public at large, the short interest-daily volume ratio permits us to watch the pessimistic element itself, apart from the aggregate investment population. The "bears" who sell short are representative of those who anticipate a decline in the market or in individual stocks. They go one step further, moreover, since they are willing to "bet" hard cash on their expectations by taking an actual short position. The activities of this bearish group of investors is shown by the total short interest figures published monthly by the New York Stock Exchange.

Short sellers are investors who wager on declines in specific stocks. They hope to profit from their belief that prices are high by actually selling shares of stock which they do not own. They manage this by selling shares they borrow from their brokers. A profit is made if they are able to buy these shares back at a lower price than the price they received when they sold short. And the extent of their profit is measured by the difference in these prices. If on the other hand, the stock rises in price by the time the short seller decides to "cover" by buying back, a loss is suffered. And he

must eventually cover his short position. As an old Wall Street saying has it, "He who sells what isn't his'n, must buy it back or go to prison."

The short seller works under many handicaps. Historically, the stock market has risen about three years for every year of decline (countering this is the fact that when stocks do decline, they tend to decline much more swiftly than they have risen). Since this great bull market began in 1949 short sellers have, for the most part, taken an unmerciful beating, as a glance at the chart on Fig. 7 will indicate.

The short seller does not collect dividends, either. In fact he must pay out any dividends which are declared on a stock he is short. That is because the stock he has sold is borrowed stock and still lawfully belongs to its original owner, who is entitled to dividends (and generally is even unaware that his stock has been borrowed*).

How does the short position in aggregate affect the stock market? For one thing the existence of a short position provides one tangible measure of the prevalence of pessimistic thinking among investors. Its size is a clue to investor psychology. Every short sale is eventually translated into a buy order, and must eventually tend to strengthen the movement of the market, even if only by cushioning a decline.

Look at it this way: As the shorts are speculating on a market decline, they sell short and then sit back to await a buying opportunity—hopefully, at a lower price. If the stocks they are short fail to decline, they must wait patiently—or cut their losses short by covering immediately. If the stocks move higher in price, they may still hold off in hopes the market will reverse itself, or cover at a somewhat larger loss. Either way, however, the short seller eventually becomes a buying force in the market, and his covering transactions will cushion further declines or perhaps even drive the market still higher. Too much company on the short side may provide a bullish situation.

* If you are an investor who leaves your stocks in the hands of the broker you needn't be alarmed by this procedure. There are two types of such brokerage accounts, "cash" and "margin." If you have a margin account, you have probably signed a "hypothecation agreement" whereby you agree to allow your broker to lend your shares to short sellers. If, however, like most investors, you have a cash account, your shares cannot be borrowed or otherwise touched.

The "Short Interest to Daily Volume Ratio" is a measure of this strength. How is this ratio figured? The total New York Stock Exchange short interest, as reported about the 20th of each month by the Exchange is simply related to the average daily volume for a period of several weeks. The total short interest is divided by this average daily volume to arrive at the ratio for that particular time.

For example, if the average daily volume has been 2.5 million shares, and the short interest totals 2.5 million shares, the ratio is 1.0. If the daily volume is 2.5 million shares and the short interest is 5.0 million, however, the index becomes 2.0 and the technical buying strength underlying the market is obviously much greater.

One day in the spring of 1958 I received a long-distance call from a worried investor in New York City who said, *"Schaefer, your bullish predictions don't jibe with the total short interest. It's getting larger all the time, and, in fact, is headed for a new all-time high. I'm scared! Most analysts and most investors see no hope for a higher market. Back in 1931, the total short interest went to over 5,000,000 and the shorts were right. A major bear market followed. Why can't they be right this time too?"*

While it was true in early 1958 that the total short interest was climbing all the time during the beginning months of the third phase of the 1949-1960 bull market (an all-time high of 6,087,000 shares sold short was reached as of July 15, 1958) it is important to realize that our main consideration is not the size of the short interest alone, but its relation to the average daily trading volume.

In other words it's the ratio that is important. And, of course, that ratio must be considered with the other technical factors involved, as discussed in this book, before a final conclusion regarding the market's future trend may be drawn.

Therefore, my answer to the foregoing question was as follows, *"It makes no difference how large the total short interest is, or might get. If we are in a primary bull market, as my studies say we are, then an increasingly larger short interest adds strength for the rise to come. As trading volume remains low, as in recent weeks, the ratio of the total short interest to that low trading volume becomes more and more bullish. When this bullish factor is correlated with my bullish 50% concept, my bullish 3-phase studies, my bullish 200-day investment line, and my bullish odd-*

lot studies, the only logical conclusion I can arrive at is the same as I have been saying in the service week after week—that this market is about as bullish as it can get and is ready to go into a vigorous third-phase upsurge."

My method of computing the Short Interest to Daily Volume Ratio is the same as that of *Barron's,* the weekly financial magazine. However, while *Barron's* figures the index once every month on the basis of the daily average volume for the past four weeks, I have found it helpful to make interim calculations on the basis of the average daily volume over two or three weeks time, depending upon the market, my own curiosity, and the time elapsed since the latest New York Stock Exchange short interest figure was reported. That way I am not dependent upon *Barron's* nor do I find myself waiting for a computation that may be late in arriving for my purpose.

It has been my experience that this ratio is one of the most useful for timing major selling and buying areas. Over the years the Short Interest to Daily Volume Ratio has roughly varied from a low of 0.5 near the top of bull market areas to a high of around 2.4 near the bottoms. This ratio is a valuable one in primary bull markets in that it reflects the collective inaccuracy of short sellers, the bearish element, and the general run of market forecasters. On the contrary, it serves to strengthen the belief that the preponderance of public opinion concerning the course of a prolonged bull market is almost always dead wrong during reactions or periods of uncertainty which so frequently interrupt a primary bull market.

The important thing for the average investor to remember, I believe, is that historically a reading of 0.5 or so for the Short Interest to Daily Volume ratio has meant that the market is in dangerously over-bought ground and a major decline may be overdue, and when the index reaches 2.4 or so, the market may be oversold and it may be about time for the prudent investor to buy stocks.

Here again, however, I want to caution that while the short interest ratio is a most reliable index, I would not attempt to gauge the future trend of the market by its use alone. The ratio should be given no more weight than our other technical market forecasting techniques: the 3-Phase analysis, the 50% Concept, the

Yield Cycle, and the other technical studies which I will discuss in the later pages of this book.

The ratio gave bullish signals in 1949, 1953, and 1958

Back in June and July of 1949, when the Dow-Jones Industrial

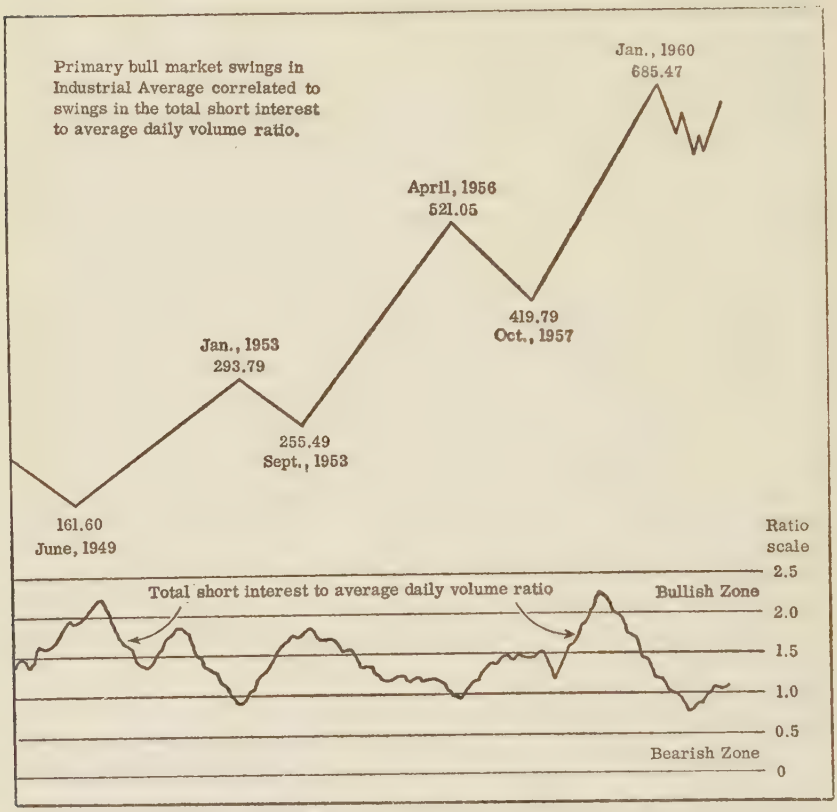

Fig. 7.

Average was idling in the 160-175 area, the short interest ratio stood at a very bullish 2.4 level. Combined with other factors, the ratio indicated the market was ripe for a strong rise, in my opinion (the primary bear trend in progress since 1946 had lasted three years, the 50% Concept suggested bullishness, and the dividend yield from common stocks was a lofty 6.9%). Thus as the market

moved slowly and irregularly up from its low close on June 13, 1949 of 161.60 I decided, despite the prevailing atmosphere of gloom and despondency, the time had arrived when it was logical to predict a bull market ahead of unprecedented duration and size.

From 1949 to 1953 we experienced, as we know today, the first phase of this great bull market. What did the Short Interest-Daily Volume Ratio do? After three erratic climbs to nearly the 2.0 level, it slid irregularly to a low of about 0.9 in January, 1953, shortly after President Eisenhower's first election to office. The volume of trading had been picking up, while the short interest had been falling off.

As you can see from the chart on Fig. 7, however, the first phase of the upmove ended in late 1953 as the ratio began to move higher again, to a bullish 1.9. The second phase of the bull market was beginning.

The next four years saw a downward trend in the ratio as the Industrial Average soared 265 points by April, 1956, and then consolidated as the second phase came to an end with the August-October, 1957 reaction.

The average person, exercising hindsight, might expect less short selling to unfold as the third phase launched the market into ever higher ground. Actually just the opposite happened as 1958's months rolled by.

Another glance at our chart on Fig. 7 shows an upsurge in the short interest ratio to a bullish 2.4 during the first half of 1958. Total short interest volume had soared to a record 6 million shares-plus as of July 15, 1958. Since trading volume remained relatively low, the ratio continued to point to still higher ground ahead.

Sure enough, the market moved upward throughout the remainder of 1958, and into 1959. In fact it was not until early 1960 that the Short Interest-Daily Volume Ratio began to warn that the great bull market was in its final stages, and that the Industrial Average might well record its final top in 1960 or 1961.

What did the ratio say in mid-1960?

During the Spring of 1960, it was apparent under this ratio that we were approaching a dangerous area. Since July 15, 1958 the

drop in the total short interest had been quite noticeable. The irregular pickup in trading also tended to move this technical indicator into a vulnerable area. In the early months of 1960, the Ratio had been hovering between 0.8 and 0.9. In May, 1960, it had moved up somewhat between the 1.0 and 1.2 levels. Although this important measure cannot pinpoint the exact end of a bull market, nevertheless, under my interpretations, as the ratio approached or fell to an area below 0.7 and should it go below the 0.5 level, we could conclude that the top was here and that the beginning of a bear market was not too far distant.

It is important to remember that during a major bull market when the short interest is large and the daily volume small, there exists not only a large number of actual short sellers, but the ratio correctly reflects a much larger body of pessimistic investors, or an unwarranted bearish psychology within a primary bull market.

A large short interest reflects mass pessimism, and when trading dries up, and the market refuses to go lower, a high short interest to a low average daily volume ratio itself often provides the very definition of a temporarily oversold market. Thus, as shown in Fig. 7, in due time a primary bull market will resume upward.

And, at high market levels, when the shorts have been forced to cover, and speculation is rampant on increased volume, a low total short interest to a high average daily volume ratio which, as a rule, goes into the 0.5 to 0.7 area, often indicates an overbought market, one that may indicate substantially lower prices ahead.

At the mid-1960 mark there had been a slow gradual drift to a danger zone, and although it is impossible to predict exactly when the most dangerous point for this bull market will come, late 1960 and early 1961 will bear close watching.

Chapter XII

CHARACTER OF TRENDS SEEN IN ODD-LOT STUDIES

The successful investor often finds himself doing the exact opposite of the crowd.

When for example, a water company bacteriologist or chemist goes about his job of determining whether or not a large body of water is fit for public consumption, he takes a careful look at a good many samples, as many as he believes necessary for an accurate appraisal, to test the chemical nature and condition of the water in question.

Then he combines the sum total of all his findings among the many samples analyzed to make a decision as to the safety of perhaps hundreds of thousands of gallons of water which may be used for drinking purposes.

So it is with stock market analysis. The market is considered as a great body of unknown elements. We take many little samplings by means of our technical and Dow theory studies to gauge, to measure, and to analyze. Only a small fraction of all trading may thus be diagnosed, or interpreted, at a time, but when our technical samples are accurate and varied, generally we are able to piece together a fairly reliable over-all picture of what the market situation is and what the market is likely to do in the future.

Already we have discussed the importance of what we have been able to find out about various test-tube samples of the market's technical condition such as the probable duration of the primary trend, my 50% concept, our 3-phase studies, the yield cycle, and the short interest-daily volume ratio.

Now as we progress in the study of how my new Dow theory has helped more than 10,000 investors to profit in stocks, I want to discuss a few helpful measurements brought out by my odd-lot studies and the observations related thereto.

As we all know, the odd-lot investor is one who buys or sells in less than 100-share lots. He is generally thought of as the "little fellow" in investment circles, and while there are many well-informed, studied and successful small investors, it may be assumed that the majority of this large group is among the rather large crowd of inexperienced, misinformed and unsuccessful investors who, one might say, almost insists upon being ruled by its emotions and doing everything wrong in the stock market.

Stocks are made to sell to the public

In thinking about the buying and selling habits of the odd-lotter, or the "little fellow," I always try to keep in mind that the basic reason for the existence of stocks is that their issuance and sale supplies the capital to keep industry efficient, growing, and able to furnish the nation and the world with needed goods and jobs. Since the money for this must come from the public, the normal longer-term trend would be one of the distribution of stocks to the people over a long period of time. In other words, to me, a balance of odd-lot buying over long periods is normal, and we should expect this normal trend of events to outweigh odd-lot selling most of the time as the years roll by.

The total number of investors (recently estimated at 12,500,000) in this nation has been growing rapidly for about a century, and we certainly do not expect this trend to change, now or ever, at least for hundreds of years to come. Therefore, while some analysts have looked upon a balance of odd-lot buying (where more odd-lotters bought than sold) as being bearish and an indication of distribution from the wise to the unwise, I feel that—here again—we must view the trends of odd-lot buying or selling in relation to our other studies. There are times, then, that a balance of odd-lot buying is a perfectly healthy and desirable situation, and there would be something wrong with the nation's economy if it wasn't that way most of the time.

Just how do we know what the odd-lot buying and selling figures

are? The odd-lot brokers report daily on their business, and the totals are published daily in most major financial papers for the investor's convenience and information.

For the careful market student, odd-lot statistics hold many clues to the market's trends, especially when correlated with the knowledge gained from the other technical and Dow theory studies discussed in this book. The odd-lot totals, as published over a period of time, reflect what a high percentage of the public believes about the market and what it is doing about it. Thus, they are a measure of mass psychology and the investor who is successful has learned that he cannot afford to overlook the psychology of the crowd in that he knows that, sooner or later, he will go opposite to the crowd in his dealings. Often it becomes necessary to buy when the public is selling and to sell when the public is on a buying spree.

The odd-lot transactions themselves account for only a relatively small part of the market as a whole, usually from 7% to 15% of the total volume. This, of course, will vary with different types of markets and general public interest in the market at various times.

It is interesting to note that as a major bull market progresses through the three typical phases as outlined in Chapter IX and as the public becomes more and more active in each successive phase of a bull market, the percentage of odd-lot buying transactions has a tendency to increase as the upmove expands, and their interpretations must be related to the phase of the bull or bear market underway. As can be seen on the chart in Fig. 8, net odd-lot buying (which is simply the difference between the total of odd-lot buying and selling) seems to come up in increasingly larger waves as the next phase of a major bull market appears. Thus, the interpretations which consider odd-lot statistics must be correlated with many other market factors to be helpful. In my experience, they have been most valuable when used to reinforce my other market studies.

Public's attitude towards market has reflected a healthy situation since 1949

I received a great deal of bullish encouragement and satisfaction

from observing the trend among odd-lot statistics back in mid-1949 and all the way up in the bull market's three phases since then.

Mass psychology, or the attitude of the investor public, is reflected, more or less accurately, by odd-lot buying and selling trends taken over a period of several weeks or months. There are three sets of figures to watch: odd-lot buying, odd-lot selling, and odd-lot short selling.

As the stock market moves in the trends discussed earlier in this book, it becomes helpful to observe how the odd-lot totals are running: whether or not odd- lot buying is heavier than the selling, or vice versa. Whichever is the larger over a period of time is referred to as the balance or net total.

Odd-lot short selling figures reflect the short sales of the "little fellow." The odd-lot short sellers are an entirely different group of investors, different and apart from the ordinary odd-lot buyer or seller, in that they seem to be extremely sensitive to the news and to what the majority of the services or newspaper financial writers have to say. I would say that the odd-lot short seller is the most emotional, and the most wrong over a period of years, of any other investor group. Odd-lot short sales, therefore, should not be confused with the total short interest as discussed in Chapter XI.

Right on the very bottom, near the 161.60 low close on June 13, 1949, for the Dow-Jones Industrial Average, when market psychology was highly emotional, I noticed that the daily odd-lot short sales had zoomed up to a total of 5,246 for June 14—yet the market was refusing to go down any further and, in fact, a rally was beginning. This was the largest daily total of odd-lot short sales for over two years, right on the bottom. Also, I noted that as the market moved higher from the low there was a persistent trend toward net odd-lot selling. In other words, the "little fellow" was bearish, was selling on balance, odd-lot short sale totals were high, and yet the market continued to climb in a vigorous, bullish manner.

Now this manifestation—that of heavy odd-lot short selling plus a steady balance of odd-lot sales near the 1949 lows—implied that the large sophisticated investor who bought in multiples of 100 shares was going opposite the crowd and was buying while the "little fellow" was selling and selling short right near the lows

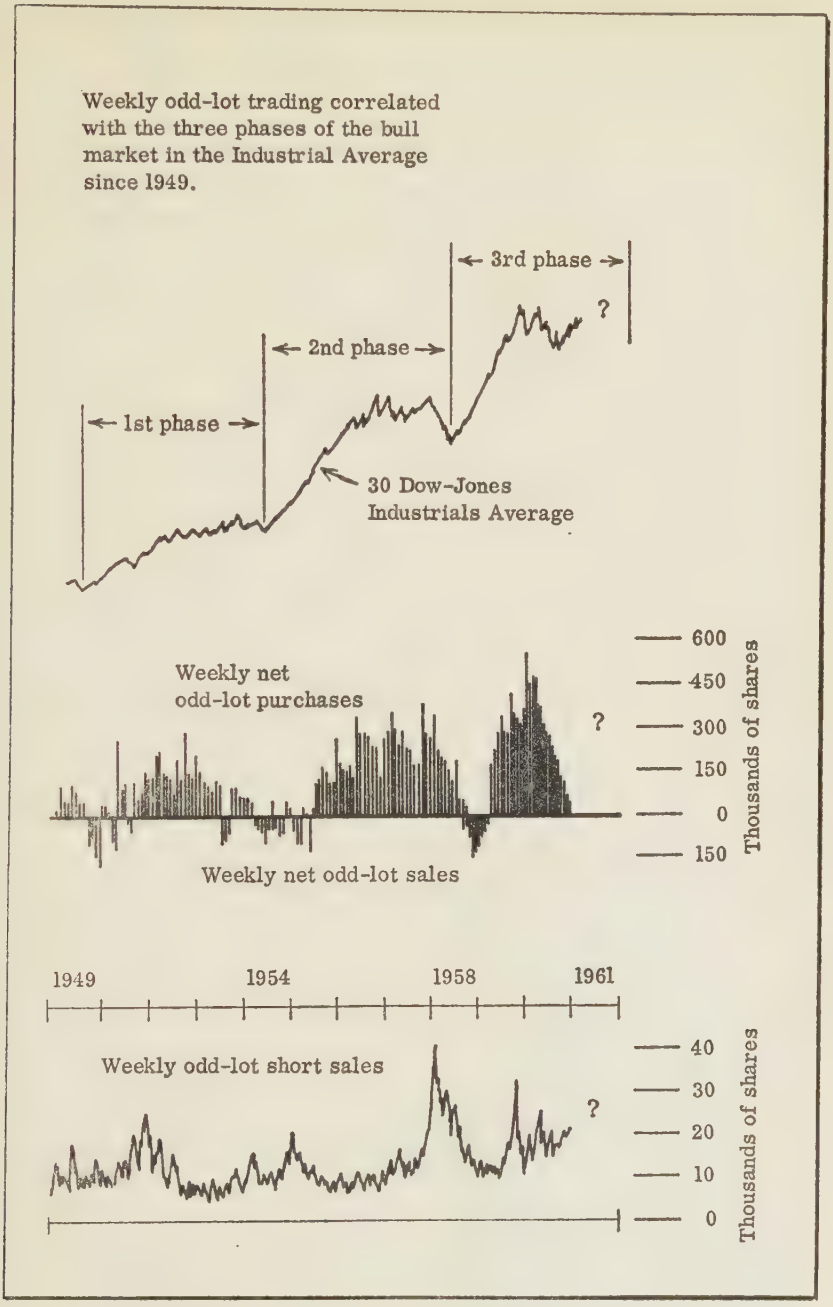
Weekly odd-lot trading correlated with the three phases of the bull market in the Industrial Average since 1949.
← 3rd phase →
?
← 2nd phase →
← 1st phase →
30 Dow-Jones Industrials Average
Weekly net odd-lot purchases
?
600
450
300
150
0
150
Thousands of shares
Weekly net odd-lot sales
1949
1954
1958
1961
Weekly odd-lot short sales
?
40
30
20
10
0
Thousands of shares

Fig. 8.

and, ironically, the stock market was beginning to move higher. Thus, I had another bullish sign and concluded that at last seasoned investment buying was underway in size and force enough (especially since the odd-lotters were selling) to begin a new primary bull market. At this point all of my studies were becoming more and more emphatic in saying that a new bull market was being born.

Sure enough, as the months moved along from the June 13, 1949 lows, the market continued to rise, the odd-lotters sold on balance most of the way up for the next 13 months after the 1949 lows had been established; and, to me, that meant a major and prolonged bull market had been launched. One that was probably going to amaze everybody before it was finished.

As we study the situation back there in mid-1949 and in early 1950, remember that all of my other studies, too, were fairly shouting that something big in the line of bull markets was coming, and my odd-lot studies certainly confirmed that bullish conclusion.

Eventually, as our chart on Fig. 8 well shows, the public did begin to buy on balance in a small way during the first phase. I will never forget those days in late 1950, 1951, and 1952 when some analysts were noting this early trend of odd-lot buying on balance, and how they viewed that situation bearishly. Readers who were active in the market in those days may recall how bearish and pessimistic some services and financial writers were during the first phase of a gigantic bull market to come.

Back in June, 1951, an attractive young widow came to my office in great anxiety and it soon became apparent to me that she was highly disturbed about her position in the stock market.

She had been reading several pessimistic services, some bearish newspaper analysts, and, no doubt, had been listening to some of her friends. She said, *"Mr. Schaefer, my husband left me some stocks and some insurance money which I used to buy more stocks. And now, I am afraid. My profits are turning into losses. The war in Korea looks like it may be over soon, most stocks have been selling off recently, I see where short selling has increased, and some of the services say that because the odd-lots have been buying more than they have been selling recently, stocks are being dumped on the public. I can't afford to take a big loss, if this is a bear market. I'm so scared, I'm petrified! What shall I do?"*

I glanced at her list of stocks and quickly observed that the account was worth about $20,000, that it was well diversified, and that most of what she held were good growth issues. And, I noticed that while she had a loss in several, there were others that still showed a profit.

I surmised that since her husband had left her some stocks, she was more or less educated in the ways of the stock market, and all that was bothering her now was fear. Also, it seemed to me that probably she had come to me in hope that I could help her in overcoming that fear.

In the discussion that followed, I tried to show this young woman why I believed a great bull market was underway. Why the primary bull trend still had a long way to go. Why my 50% concept was bullish. That dividends yields were still attractive. Why it was normal to have corrections within a major long-term uptrend. How it was normal to have a good amount of odd-lot buying all the way up. And how we could logically expect a major bull market as this one to have three phases and to finally top out in a highly speculative area.

I have often wondered just how this young widow has done in the years that have passed. If she held on to her stocks through all three phases and all odd-lot buying, all the way up, thru 1960, her account would be worth well over $80,000, not counting the dividends she would have received over the years.

That is why I say we must consider other technical factors such as the position of the primary trend, the 50% concept, what phase the market is in, the yield cycle, the short interest-daily volume ratio, and the other studies that I will discuss later, before we can draw reasonably reliable conclusions from the most careful of odd-lot studies, or any other single technical study when taken alone. Investors who became fearful and who sold during the first phase in 1950 or 1951 simply because the odd-lotters were beginning to buy on balance learned this lesson the hard way as stocks moved higher and higher during the second and third phases in the years to come.

As the first phase ended in September, 1953, the Korean War was over and as pessimism and gloom prevailed among the majority of financial writers and services, the public became fearful and began to believe that the nation's economy was due for a sizeable

adjustment and that it was highly improbable that business could go forward without the stimulus of a war.

Thus, once again, I noticed that the public was bearish and the daily odd-lot short sale total soared to 5,000 shares sold short on September 15, 1953—very much the same as at the June 13, 1949 low point in the market—and, once more, my research was fairly screaming that the stock market was now ready technically for its second up-phase into much higher territory even though the majority of analysts and the public were bearish.

When, during the months immediately following the September 13, 1953 low close of 255.49 for the Dow-Jones Industrial Average, I saw that—similar to 1949—there was a steady and persistent balance of odd-lot selling as the market climbed to brand new all-time highs, the handwriting clearly was on the wall saying that large seasoned investment sources were accumulating while the public was bearish, fearfully absorbing all the worrisome and bearish news being published by many of the financial journals, magazines, newspapers, and services.

To my way of thinking, the fact that the odd-lotters were selling at a time when the Industrial Average was scoring new bull market highs added a bullish character to the rise. The second phase of a great bull market was underway, led by the buying of experienced investors while an inexperienced public was selling and succumbing to the worrisome news items, the many bearish and emotional opinions of mine-run analysts, and to their own fears. In other words, back in later 1953 and 1954, stocks were moving from weak hands to the strong in a very obvious and bullish trend.

As the second phase expanded to new highs during 1955 and 1956, the "little fellow" became more confident, and as you will note on the chart on Fig. 8, net odd-lot buying began to rule early in 1955 to late 1957. Also, you will see that the total wave of net odd-lot buying was considerably greater during the bull market's second phase than during the first phase. This is logical in that the public becomes more and more bullish as the three phases of a bull market progresses upward. When the third and final phase is completed, it is entirely reasonable that we might expect the total net odd-lot buying to break all records and to be the largest, by far, as compared to the first two phases.

But before we begin to discuss the great third-phase upsurge,

let us take a look at conditions during late 1957 and early 1958 when the third phase had its beginning.

As already mentioned earlier in these pages, the second phase is one where indecision rules much of the time, and, as Hamilton said, the second phase is noted for its deceptive secondary reactions. Therefore, when following the second phase 521.05 high close established on April 6, 1956 the Industrial Average had five very deceptive reactions, this type of uncertainty was not out of keeping with what might be called a typical deceptiveness of the second phase. Perhaps the greatest unwarranted and the most fearful reaction ended in October, 1957, just after the Russians successfully put their "Sputnik I" into orbit. Wall Street and every other financial center throughout the land trembled with fear at that time. People sold stocks day after day, many banks were forced to sell stocks held as collateral for loans, and brokers everywhere sold stocks to protect the margins in the margin accounts of their customers. Fear ruled everywhere in the country; and, we will discuss this mass psychology more thoroughly, and how you may learn to combat it for future profits, in a later chapter.

How late 1957 and 1958 showed a highly bullish odd-lot situation.

The Russians announced the launching of "Sputnik I" on Sunday, October 4, 1957 and the next day, October 5, the market went sharply lower and continued to slide as fear gripped the nation. For years I had been watching the odd-lot figures, and with the crowd and even some of the more seasoned investors becoming panicky and hysterical on the decline, it soon became apparent to me that the odd-lot short sellers were going to have a ball in what, temporarily at least, looked like a sure thing for the bears.

Sure enough, on October 7, 1957, the daily odd-lot short sale total ran up to 5,807 and since I had made a habit of recording all daily odd-lot short sale totals that were 5,000 or higher, I continued to keep track of what later proved to be the most interesting psychological observation to me, of the entire bull market. Fear, the strongest of man's emotions, was going to have its way regardless of all logic!

Heretofore, whenever the daily odd-lot short sale totals ran 5,000

or more for one day, the bottom of the decline was always fairly near. However, in this case the Industrial Average recorded its bottom close of 419.79 on October 22, 1957—two weeks and one

DAILY ODD-LOT SHORT SALES

when 5,000 or higher

Date	*Short Sales*	*Date*	*Short Sales*
June 14, 1949	5,246	Jan. 17, 1958	9,388
Sept. 15, 1953	5,000	Jan. 23, "	5,165
Oct. 7, 1957	5,807	Feb. 12, "	6,699
Oct. 8, "	8,330	Feb. 20, "	5,995
Oct. 10, "	7,579	Feb. 21, "	6,356
Oct. 11, "	7,266	Feb. 25, "	5,949
Oct. 14, "	5,753	March 18, "	5,702
Oct. 17, "	9,251	April 10, "	5,416
Oct. 18, "	9,771	April 25, "	5,248
Oct. 21, "	10,940	May 8, "	6,070
Oct. 22, "	8,542	May 12, "	5,754
Oct. 23, "	8,074	May 14, "	7,380
Oct. 24, "	9,693	May 15, "	6,859
Oct. 25, "	9,008	July 15, "	5,069
Oct. 31, "	6,964	July 22, "	5,263
Nov. 1, "	7,923	Sept. 8, 1959	6,759
Nov. 4, "	7,686	Sept. 9, "	6,834
Nov. 6, "	5,665	Sept. 14, "	5,291
Nov. 7, "	5,823	Sept. 21, "	8,924
Nov. 8, "	7,098	Sept. 22, "	8,219
Nov. 13, "	5,101	Sept. 23, "	6,566
Nov. 15, "	7,452	Sept. 24, "	6,867
Nov. 19, "	6,255	Sept. 26, "	6,078
Nov. 20, "	5,480	Sept. 28, "	5,043
Nov. 21, "	5,113	Sept. 29, "	5,361
Nov. 27, "	7,026	Oct. 1, "	5,048
Jan. 9, 1958	5,182	Feb. 8, 1960	5,083
Jan. 10, "	7,900	Feb. 15, "	5,000
Jan. 13, "	7,909	Feb. 17, "	5,867
Jan. 16, "	9,007	March 4, "	8,216
		March 8, "	5,962

Fig. 9.

day after the first heavy day of odd-lot selling on October 7—and the amazing thing was that this heavy odd-lot short selling continued for another eight months regardless. As you will observe in the table on Fig. 9, from October 7, 1957, to July 22, 1958, there was an almost unbelievable total of 43 days in which the daily odd-lot short total ran over 5,000 shares sold short.

This trend toward heavy odd-lot short selling, however, was not out of step with the increasing total short interest figures as published by the New York Stock Exchange as shown on the table on Fig. 9. Unbelievable? Yes. To think that the vast majority of investors, services, investment counsellors, and financial writers were so certain and so dead wrong in their bearishness (just before one of the greatest market advances in history) that their bearish influence was strong enough to bring about this huge total of odd-lot short selling and the greatest total short interest ever reported by the New York Stock Exchange as of July 15, 1958.

By the late Spring of 1958, some of the more sophisticated investors saw the handwriting on the wall, and began to accumulate stocks. However, as large investment sources accumulated, the odd-lotter ran true to his usual self just before a big upmove and sold on balance most of 1958. Here again, the fact that huge totals of odd-lot short selling took place in late 1957 and early 1958, and that, in the early months of the third-phase upmove, the odd-lotters sold on balance gave a character of strength to my predictions for a 250-point upsurge—made in large 8-page ads in *Forbes, Financial World,* and the *Magazine of Wall Street* during October, 1957, and in my weekly service, at these lows—and, for this reason, I regard a careful look at the odd-lot situation as a valuable sideline study to help us determine the soundness and the character of the market's movements as they occur.

In mid-1960 the third phase upmove was no longer young, and although the odd-lot picture was bullish, it was no longer as bullish as it was in late 1957 and in 1958. As our chart on Fig. 8 clearly shows, net odd-lot buying grew to a tidal wave of rather large proportions in 1959. Odd-lot short selling as shown in Fig. 9 became relatively light in early 1959, but turned bullish again in late 1959 and early 1960. Thus, the once-bullish character of the third-phase upsurge was somewhat less bullish in mid-1960, but it was still bullish, and the question was one of how much longer the primary bull market could continue. By June of 1960, the "little fellow" had become more cautious, odd-lot selling again had begun to be greater than odd-lot buying, while the larger investor remained bullish. Eventually, then, the unsophisticated odd-lot public, while cautious in 1960, would make a turn-about and push prices up later. Odd-lot short selling figures, during the reaction of early

1960, as can be observed on our table, Fig. 9, still indicated a higher market ahead in 1960 and probably well into 1961.

Once a primary bear market begins, (say, for example in 1961 or 1962) the chances are excellent that the public, and the odd-lotters, will refuse to believe that a major bear market lies ahead. Just as the odd-lot statistics showed a heavy balance of selling during the early ten to fifteen months of each of our three-phase upmoves since 1949, so it becomes reasonable to believe that the odd-lotters will buy heavily during the first several years of a new primary bear market, all the way down. The reason for this: stocks will look cheap and attractive compared to their bull market highs. Only near the very bottom, when holders of stocks begin to read unfavorable news and become thoroughly discouraged, and they are forced to sell because they need the money, is it logical to think that the odd-lot selling will finally begin to outweigh the buying. That is the point to watch for in a bear market. Then the wise investor will begin to buy.

What about odd-lot short selling during a bear market? In answer to this question I would say that, as a group, the odd-lot short sellers will be quick to take a chance on the market's going down, and if encouraged by the news and the market itself, we can expect considerable odd-lot short selling and, also, round-lot short selling to unfold during a genuine primary bear market. Short selling is a very normal trading activity during a primary bear market, and, for this reason, I would place no great emphasis on a large short interest during a primary bear market. At that time a primary bear market will be on, the bears will have their way, while stocks are being distributed to the emotional, misguided and uninformed investor, all the way down.

Chapter XIII

THE 200-DAY INVESTMENT LINE

Find out what large investors are doing and you will be looking into the heart of what governs the market's future trend.

Some twenty years ago, I had the pleasure of meeting a wealthy 80-year-old investor who had been a personal friend of Charles H. Dow. Upon learning that I was interested in Dow, we talked about his market philosophy at great length, and the one point in our conversation that I remember well was when the old gentleman said, *"In thinking about market trends, he (Dow) was positive that the long-term investment buyer influenced the market most in the early stages, and that the public generally had its greatest influence when the time was getting late."*

"He (Dow) felt, therefore, that success in the stock market hinged more upon what large investment sources were doing than upon what the public or the averages were doing."

Neither Hamilton nor Rhea ever attempted to make a special study, or a related study, that would give market students a clearer insight into large investment buying trends. They relied only upon the Industrial and Rail Averages in their belief that the averages discounted everything.

However, in my research for better and newer methods to aid investors, I finally concluded that one of the most helpful methods available is the one I will discuss in this chapter called, *The 200-Day Investment Line.*

I used this market study successfully during the 11-year primary

bull market period since 1949. However, I take no credit for its discovery or development. My research into the past reveals that this method was discovered and used by a few studied investors as far back as forty years ago.

I call it *The 200-Day Investment Line* because in computing it for any one day we take the 200 consecutive immediately past closes of the Dow-Jones Industrial Average, add them all together, and then divide by 200. This gives the figure for that particular day.

For the next day, we add the latest day's close for the Industrial Average and subtract the close for the 201st day back, and then we divide this new total by 200 to arrive at the next day's figure for *The 200-Day Investment Line.*

In that manner, new daily figures are established, and thus, a moving average develops as each new day is computed. This is the (IL) line I have carried forward for a good many years in the service. As time moved along, some valuable conclusions and interpretations have been drawn by the position and movement of this 200-Day Investment Line, and its relative position to the day-to-day movement of (DJ), or the 30 Dow-Jones Industrial stocks which compose the senior average.

Before we go into the technical and practical use of this method, allow me to emphasize, again as follows, why I think it is valuable and important to you as an investor.

A careful observation of the stock market from all viewpoints over the years will reveal that the large, seasoned investor is the backbone—or the ruling force—of major and prolonged market trends. His buying of good investment and growth values starts the market upward. If, after a Primary Bear Market has been in a downtrend for a long time, say for three or more years, and you begin to observe large blocks of investment-quality issues on the tape in a turn-about movement to the upside which has been developing over a period of several months, then it may be assumed that investment sources have begun to accumulate for a new Primary Bull Market ahead. But we can't be sure. Something more to assure us that a new bull trend is beginning would be helpful, and that need is at least partially fulfilled by *The 200-Day Investment Line.*

As a general rule, and as discussed in some of our preceding chapters, a Primary Bull Market begins after a long bear trend has been in force and mass psychology among the public is gloomy, pessimistic, and bearish on the outlook for the future. At some point, when the market is sold-out thoroughly and the majority are unable to see anything but lower prices ahead, our New Dow Theory begins to anticipate the early beginning of a new Primary Bull Market ahead, especially if our studies show a bullish technical condition at hand.

If the public is bearish, then what is likely to start a new upmovement in the stock market? I think that history will prove conclusively that institutional buying, such as the purchases of trust funds, pension funds, banks, corporations, insurance companies, and endowment funds, plus the buying of the seasoned individual investor, will gradually start the market up. Something to measure this type of investment buying, then, would be most helpful to the average investor.

Here is where *The 200-Day Investment Line* plays its part. As I mentioned before, this line is a running average composed of the average buying and selling of institutional and seasoned investment sources over any 200 days just past. It reflects what is being done by major investment sources simply because the 30 Industrial stocks that make up the Dow-Jones Industrial Average are exactly the type of stocks that wealthy investors buy.

Therefore, it is important to you to have an average or a measurement of what the large investor has done in the market over the past 200 days, to see what the trend of his buying or selling has been, and to compare it with the market's present standing.

Readers might ask: Why not take an average of 30 days, 60 days, or 100 days? Why does it have to be 200 days? In answer to these questions, my experience has been that you can get this kind of an average too short or too long in the number of days it covers. All advantages and disadvantages considered, I have found that an average of 200 days trading (which covers about a 9½ month period of time) works out best for the investor who wants to invest for the longer pull and to take advantage of the broad primary swings in the market. In view of all the backing and filling the market might do, and the temporary effects that the news might

have on any given trend, 200 days' trading gives a fairly satisfactory cross-section of seasoned investment thinking.

How I applied the 200-day investment line in 1949

In a primary bear market, the 200-Day Investment Line stays *above* the day-to-day plotting of the Dow-Jones Industrial Average most of the time. Only occasionally, when fast intermediate-term rallies occur in the senior average within a primary bear trend is the 200-Day Investment Line likely to be below the Industrial Average, temporarily.

And, in a primary bull market, the 200-Day Investment Line stays *below* the current plotting of the Industrial Average as it takes the lead and pushes ahead to new highs. Only on severe intermediate-term or secondary reactions do we get a temporary dip below the 200-Day Investment Line. When the reaction is over, then the primary bull market resumes as a new uptrend begins, and the Industrial Average will push *above* our 200-Day Investment Line again as it leads the way to the upside.

Back in mid-1949, the Primary Bear Market since 1946 was three years old, there had been several fast rallies above the 200-Day Investment Line by the Industrial Average during that three years, my 50% Retracement Concept was bullish, the Short Interest Daily Volume ratio as discussed in an earlier chapter was in extremely bullish territory, my odd-lot studies were showing a healthy situation in that there was a balance of selling and the Industrial Average was yielding a bullish 6.9% in the midst of an atmosphere filled with all the gloom and doom imaginable among the public.

As I watched the tape back in late June and early July of 1949, it was very apparent that someone was buying stocks even though almost all the newspapers, magazines, services, and analysts were expressing gloomy, bearish opinions. True, business was bad, earnings were down, dividends were being cut—but wasn't that normal and to be expected as a bear market was ending and a new primary bull market was just beginning?

I turned extremely bullish near the 1949 lows because of my technical studies. The 200-Day Investment Line was still above

the Industrial Average in June, 1949 but I began to observe a new trend that implied that within a month or so the Industrial Average bullishly would push through the 200-Day Investment Line on the upside.

And sure enough, on July 18, 1949 the Industrial Average went through the 200-Day Investment Line to close above it, at the 174.04 level, in a most bullish manner.

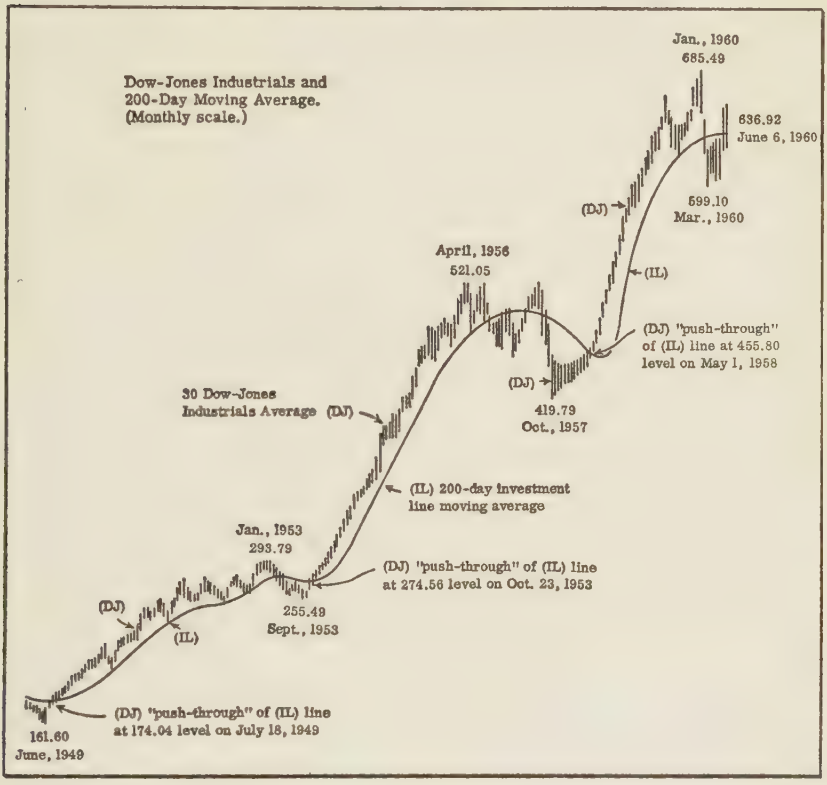

Fig. 10.

Thus, all of my technical factors had become bullish. The first phase of a great bull market was underway. The greatest investment opportunity since the 1921 low was here—yet, people simply refused to believe it. In those days, I nearly went broke trying to convince the public that a major bull market had been born. Every bullish ad, every piece of bullish mail, and every bullish

market letter that I sent out was rejected and criticized unbelievably by a fearfully bearish public that simply was in no mood to listen to anything bullish.

Much the same thing happened in late 1953

Yet, as time went on, my bullishness gradually was confirmed by a higher market during the first phase of our bull market, and the service slowly began to attract more and more subscribers. By 1952, business was much better, it was apparent that Mr. Eisenhower was going to be elected president, and I wrote my now-famous study that received nation-wide publicity entitled "The Coming Boom."

When the election of November, 1952 left no doubt in the minds of investors that a Republican, Mr. Eisenhower, had been elected to the presidency, the market rallied sharply, some excessive buying developed, and when the Korean conflict reached its final agreement in early 1953, the Dow-Jones Industrial Average was in need of some consolidating as it dropped below the 200-Day Investment Line on April 6, 1953 at the 279.24 level, and the public, once more, turned bearish, fearful, and pessimistic regarding the future.

As both the Dow-Jones Industrial and Rail Averages plotted a downward zig-zag, the older school of Hamilton and Rhea Dow theorists interpreted that pattern of the averages bearishly, and suddenly I found myself all alone on the bullish side of the fence again.

September, 1953 recalls a vivid picture to my memory. Just as I was beginning to believe that the service was beginning to be a success, a bearish public began to descend upon me for voicing my bullish opinions that the sell-off underway was only temporary and that a boom in business and in the stock market was in the immediate offing.

I received hundreds of long-distance calls, telegrams, and letters questioning my bullish views. Some of these questions were as follows: *Why, how could the economy prosper without war contracts? What about all the unemployed? Have you read the bearish article in this or that magazine or newspaper? How can you have the nerve to be bullish when every other Dow theory*

service is selling and calling it a bear market? And so on.

In the fall of 1953, I also learned for the first time that when people get fearful enough, they do one of two things. They either get scared and run, or, if they find themselves with their backs to the wall in an insecure situation, they sometimes get angry and often become hostile.

In the late months of 1953, therefore, many investors, who had bought stocks earlier, sold out, while others stood their ground fearfully and sometimes angrily. I received a good many hundreds of what I refer to as "uncomplimentary" or "critical" letters during that period and hundreds of my subscribers turned hostile towards me and quickly cancelled the service, often expressing a feeling of utter regret that they ever considered my bullish views.

However, just as at near the lows in 1949, my technical studies were fairly screaming that a new upsurge and boom was coming. As I have already mentioned in previous chapters, my 50% concept was bullish, dividend yields were attractive, the odd-lot figures were reflecting a sold-out condition, the short interest-daily volume ratio was firming up, and it wasn't long before the tape and the Dow-Jones Industrial Average began to show an incredible display of investment buying and on October 23, 1953 it pushed up through the 200-Day Investment Line at the 274.56 level in as beautiful a manner as anyone could have hoped for. It was then late October of 1953, and within a few weeks, in November, 1953, I came out with my second well-remembered boom study entitled "The Boom Begins." Within 30 months the Industrial Average had soared upwards some 265 points almost exactly as predicted, and my weekly service, *Schaefer's "The Dow Theory Trader,"* was meeting public acceptance everywhere.

The bullish investment buying of early 1958.

After reaching a high close of 521.05 on April 6, 1956 the Industrial Average began to show signs of profit-taking while the Rail Average moved higher for another month or so. This unwillingness of the Industrials to confirm the Rails in the spring of 1956 served to bring about the top area of the big bull market's second phase. The senior average had five intermediate declines which

progressed downward irregularly from the 521.05 high close of April 6, 1956 to a low of 419.79 on October 22, 1957.

Each of these intermediate declines went below the 200-Day Investment Line, and because my studies and interpretations said that the third and final up-phase of the primary bull market since 1949 was yet to come, I classified each of these five intermediate-term reactions as "buying areas" for a major upsurge ahead.

These interpretations were acceptable and logical to most of my subscribers. Many used the reactions of 1956 and 1957 for buying purposes. Each time the Industrial Average dropped below the 200-Day Investment Line, it was reasonable for all who understood this investment line to believe that stocks could then be purchased at prices lower than many seasoned investors were willing to pay on an average for the 200 days just past. Our 200-Day Investment Line, as described earlier in this chapter, is simply a measurement of what the more sophisticated investor has paid for stocks, at an average price, during the most recent 200 days of trading.

However, as "Sputnik I" made history on October 4, 1957, a huge tidal wave of emotionalism was destined to engulf all logical thinking in the stock market and fear reigned as the public sold stocks hysterically for over two weeks, and as the Industrial Average plunged to its 419.79 low close of October 22, 1957. Thus, the second phase ended and the third phase of the great 1949-60 bull market was born.

I will never forget this sharp dip that the Dow-Jones Industrial Average (DJ) made below the 200-Day Investment Line (IL), and the great fears that plagued my subscribers until the Spring of 1958. By then, as already discussed in foregoing chapters, all of my technical studies had turned extremely bullish, and it was gratifying indeed to see our (DJ) line push through our (IL) line on the upside in a most bullish manner at the 455.80 level on May 1, 1958.

Readers will remember that the business recession reached its low point in the Spring of 1958. Yet, investment buying, as measured by the fact that the Industrial Average had pushed through the 200-Day Investment Line on the topside, was clearly shouting that large investment buyers were willing to pay more for stocks now than they had been willing to pay on an average of the 200 days just past.

All through the Spring of 1958, a business recession held on, and

people simply could not understand why the stock market should go up. The majority of financial writers, analysts, and services were bearish. The market's strength, which was reflecting the buying of wealthy investment sources, was a hard pill for some of the nation's leading analysts and the public to swallow. Those who saw the handwriting on the wall knew that some fabulous profits were coming.

The manager of one of the country's largest broker's offices called me in May, 1958, just after the Industrial Average was bullishly and firmly entrenched above the 200-Day Investment Line, and said, *"I have watched your 50% concept stay bullish, the third phase appears to be coming just as you say, the short interest and the short interest to daily volume ratio are getting more bullish all the time, your odd-lot studies have been about as bullish as they can get, and now the most important factor is that your (DJ) line is holding bullishly above your (IL) line. I want to say that the service you and your studies have rendered to our customers is invaluable. My boys (customer's men) are now more bullish than ever and are advising our clients to buy and to hold good stocks for a major rise ahead."*

And come just such a major rise did! Up through 1959 and into 1960, some amazing profits developed to patient investors.

What's ahead for the 200-day investment line now?

Just as this particular investment trend study often measures important changes ahead in bull markets, so it may also indicate events to come in bear markets.

In future years, not all such indications may be as clear and as easy to read as they were in 1949, in 1953, and again in 1958.

As with all my other technical studies discussed in this publication, *The 200-Day Investment Line* should never be considered alone. The investor must learn to fit it into its proper place among his other forecasting tools, and to use it correctly in an ever-chang- market.

My experience has been that interpretations under the 200-Day Investment Line must be correlated with other studies, and if this is done accurately, these interpretations will have a tendency to confirm what your other studies have already told you.

For example, back in 1949, in 1953, and in 1958, my other tech-

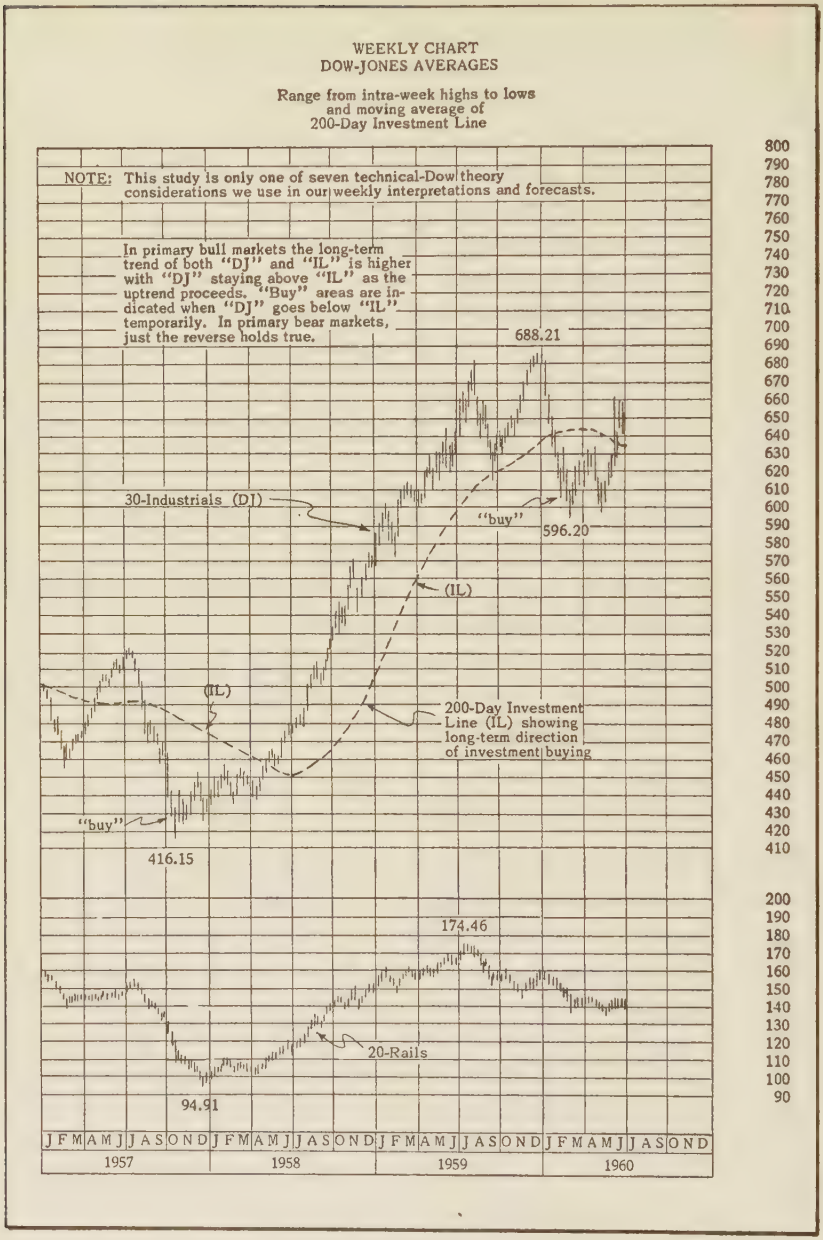
WEEKLY CHART
DOW-JONES AVERAGES
Range from intra-week highs to lows
and moving average of
200-Day Investment Line
NOTE: This study is only one of seven technical-Dow theory considerations we use in our weekly interpretations and forecasts.
In primary bull markets the long-term trend of both "DJ" and "IL" is higher with "DJ" staying above "IL" as the uptrend proceeds. "Buy" areas are indicated when "DJ" goes below "IL" temporarily. In primary bear markets, just the reverse holds true.
688.21
30-Industrials (DJ)
"buy"
596.20
(IL)
(IL)
200-Day Investment Line (IL) showing long-term direction of investment buying
"buy"
416.15
174.46
20-Rails
94.91
800 790 780 770 760 750 740 730 720 710 700 690 680 670 660 650 640 630 620 610 600 590 580 570 560 550 540 530 520 510 500 490 480 470 460 450 440 430 420 410
200 190 180 170 160 150 140 130 120 110 100 90
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1957 1958 1959 1960

Fig. 11.

nical studies had turned extremely bullish several weeks or months before the Dow-Jones Industrial Average (DJ) pushed above the level of The 200-Day Investment Line (IL).

Therefore, under this same line of reasoning, when the current primary bull market records its final top, as it could in late 1960 or in early 1961, I feel that the majority of my other technical studies will already have given their warning, and when the senior average (DJ) makes its final plunge below our investment line (IL) it will simply confirm the bearishness that our other studies have implied for some time.

As I see it, it will be important for investors to observe whether or not an eventual downturn into a primary bear market will come without warning or be generated by unfavorable news of some sort. History suggests that the next bear market will begin out of a clear sky, that it will last possibly three or four years before the final bottom is reached, and that the senior average will stay below our investment line most of that time.

Up to now in the major uptrend since 1949, all temporary declines by the Industrial Average (DJ) below the Investment Line (IL) have been characterized by fear selling among the public in response to some piece of scare news, or some well-publicized unfavorable situation. This type of "shake-out" which has occurred all the way up has served to frighten the inexperienced investor into selling, and stocks have moved from weak to strong hands in a bullish manner preparatory to a new rise ahead. Such a "shake-out" occurred in the Spring of 1960. It seemed reasonable to believe that since the mis-guided public had been so well informed of the possibility of lower markets to come, all the way up since 1949, the market would go higher after each reaction as the primary bull trend resumed.

Therefore, it seems logical to me to expect a final top to the current primary bull market at some point where everything looks rozy, after stocks have been moving up and up for some months, when the crowd is happy and confident, and there is not a cloud in the sky.

As shown in Fig. 11, the Industrial Average has pushed above our (IL) line at the 636.92 level on June 6, 1960 in a manner very similar to that of late 1953 and early 1958. The news affecting the market has been similar: a tense Russian situation, an election un-

certainty, tight money, and a slow downward drift in the business of some key industries. All of these had received wide publicity among investors. There was no surprise element. The skies had been cloudy with cautions, fears, and doubts.

Yet, the technical situation had continued to gain in strength. The market had refused to go into a true primary bear market decline, and the odds favored an advance. It will be important to watch the nature of the expected rise and the technical indications that accompany it.

As history repeated, the technical strength developing in the market was strong enough to push our (DJ) line above the (IL) line, and, at each of these points, investors once more were willing to pay more for investment-grade stocks than they had been on an average for the 200 days just past. This situation, in turn, adds momentum to the 3rd-phase upsurge underway, and mass investor psychology should push the Industrial Average to much higher levels.

Once the third phase reaches its most speculative top area, the market could very well begin an unexplained and unexpected decline—catching the uninformed public off guard. That eventually might well be the setting, or background, for a new bear market ahead.

I would be inclined to think that during the last stages of this great bull market, our various bearish technical indicators as discussed in the preceding chapters will be almost totally disregarded by the public as it buys on hopes and expectations, while others among the crowd hold on with greed in their hearts, unwilling to pay Uncle Sam a capital gains tax.

Then, just as Hamilton wrote *"no tree grows to the sky,"* at some point which, of course, will be the top, the weight of selling by seasoned investors, or the ever-increasing distribution taking place at that high level, will eventually become too heavy and break the market to the surprise and utter amazement of those who remain bullish.

At that time, our 200-Day Investment Line will be telling an almost unbelievable story. It will correctly reflect the high average price that investors have been willing to pay during the 200 trading days just past, and as the Dow-Jones Industrial Average (DJ) crashes *below* it, this technical study should prove its value

again by showing us that investors then will not be willing to pay such high prices any longer. Once this point is reached, a new primary bear market will be underway.

And it is well to remember that in primary bear markets, once the Dow-Jones Industrial Average falls below the 200-Day Investment Line, it will stay *below* it most of the time, all the way down, until the new bear market runs its full course, usually from three to five years.

Only occasionally, during sharp rallies in a primary bear market, (DJ) will push above (IL) temporarily, and then the primary bear trend is most likely to resume again.

Chapter XIV

OTHER HELPFUL TREND INDICATORS

There can never be enough straws in the wind for the careful market analyst.

For just a moment, now, let us pause, first to look back, and then to look ahead, as we continue our discussion on how an estimated more than 10,000 investors were helped to profit from the great bull market since 1949 up to this writing by the methods shown.

Since you have read all the chapters this far, you have already obtained a new insight into what is being done in stock market research to guide the investor along the road to profits in stocks.

Perhaps the thought has already occurred to you that the majority of financial material that most investors read today in regard to the stock market is not the answer, and is worthless compared to what you have read so far in this book. And I would say that you will agree, as you read on, that the best is yet to come.

So far, then, these first 13 chapters have stressed the background and a portion of the philosophy of the New Dow Theory. They represent the valuable part of what the older school of Dow theorists have to offer along with a discussion of the technical tools which you will learn to understand and to use as a modern up-to-date- Dow theorist, and thus, to become more successful in the stock market.

In the chapters which follow, I will show you how you may train and discipline yourself to use the principles outlined and, once you have mastered them, to make more money in stocks as the years ahead unfold.

But before we delve into the practical application of my New

Dow Theory, allow me to mention several other trend indicators which you, as an interested Dow theorist, should know about.

The "Lack of Confirmation" signal

While both Hamilton and Rhea agreed that the Dow-Jones Industrial and Rail Averages must confirm each other within any market movement for that movement to continue, this concept has become somewhat outmoded in present-day markets simply because the rails are no longer an aggressive, growing segment of the economy.

As a result, the Industrial Average often reflects investor accumulation within the various stages of a primary bull market while the Rail Average has a tendency to lag and to perform sluggishly. Due to this lack of interest among long-term investors, the carriers as a group have become highly speculative as compared to high-grade industrial issues with strong growth to look forward to.

When the speculative element in the stock market finally becomes active and enthusiastic during a primary bull market's late stages, therefore, it is not unusual to witness a greater interest in the rails as speculation among the public increases. And sometimes the Rail Average will move somewhat higher near the speculative top of a long bull movement while the Industrial Average will refuse to confirm with a corresponding new high, thus giving a "lack of confirmation" signal at the top.

This same "lack of confirmation" signal sometimes occurs near the bottom of a down movement. In corrections within a major bull trend, when the speculative element gets scared out of its holdings, the Rail Average might go somewhat lower as a fearful crowd sells while accumulation takes place among investors in better-grade industrial stocks which compose the Industrial Average as it refuses to confirm the further downtrend in the Rails.

For an example of these two types of *"lack of confirmation,"* we note that during the top area of the second phase of the current primary bull market, some speculative public buying developed, and although the Industrial Average recorded its second-phase high close of 521.05 on April 6, 1956, the speculative element in the market at that time pushed the Rail Average to its high close of 181.23 on May 9, 1956—over one month later. This proved to be a case

where the Industrial Average flatly refused to confirm the increasingly higher prices being recorded by the Rail Average, speculation was being recorded by the Rail Average, speculation was being overdone, and this "lack of confirmation" signal was the forerunner of a sizeable corection to come immediately after and to continue, irregularly, into late 1957.

Then, as speculation among the public during the second phase began to subside in late 1956 and 1957, the Rail Average refused to confirm on the upside or to participate enthusiastically in all four rallies attempted by the Industrial Average from about mid-1956 to mid-1957, and the major bull market hesitated to consolidate itself even farther.

However, after the Industrial Average recorded its extreme second-phase low close of 419.79 on October 22, 1957, it was interesting to note that the Rail Average continued lower in response to public fear to a low close of 95.67 on December 24, 1957. Here again a decisive "lack of confirmation" signal took place in which the Industrial Average balked at confirming the latest low close for the Rails. This time, the signal implied that investors were accumulating good industrial issues, and that a higher market was coming. I used this signal very effectively in late 1957 in my predictions for a gigantic third-phase rise ahead. I interpreted it as a major "lack of confirmation" signal with a highly bullish significance. It served to reinforce my many other bullish technical signals at that point, and, of course, the third-phase rise came almost exactly as predicted.

Again, at much higher levels in early 1960, the Rail Average refused to go into higher ground and to confirm the 685.47 high close for the Industrial Average. The bull market reacted from that point on and consolidated for five months. But then a bullish "lack of confirmation" in the averages occurred in May 1960. While the Rail Average reflected the low ebb of speculation at that point by recording a new low close which was below its March 8 low close of 138.18, the Industrial Average stubbornly refused to violate its March 8 low close of 599.10 and rallied briskly, instead. Thus, the averages refused to confirm each other at the top, and again at the bottom, and in that case, the Dow theorist will do well to assume that the already-established primary trend (which in May, 1960 remained bullish) will resume in due time.

"Lack of confirmation" signals must be considered as they appear

in that there is no way of knowing ahead of time as to when they might come. I have found that as a primary bull market begins and develops the Rails are slow in moving upward in gear. This is because the speculative public refuses to believe in a new bull market. However, as speculation increases, the Rail Average moves better as the bull market progresses, and, in fact, may reflect a condition of excessive speculation at the top.

During primary bear markets, speculation dies down and finally becomes nil, and therefore it becomes logical to expect the Rail Average to become extremely depressed by the time the bottom of a primary bear market has been reached.

When the fabulous bull market began in mid-1949, the Rail Average was greatly depressed as the public remained bearish and pessimistic. My predictions for a major bull market ahead were met by the bearish, older school of Dow theorists by such outcrys as, *"You can't have a major bull market as long as the rails don't confirm!"* or as, *"The rails are lagging, why isn't that a Dow theory signal for a lower market ahead?"*

My answer to hundreds of such objections in letters and telephone calls from investors who reasoned in harmony with the older Hamilton and Rhea school of thought was as follows, *"The rails as a group are no longer considered a growth investment by most seasoned investors today. Therefore, when a bull market is young, there are better buys among industrial issues, and that is why the experienced investor will accumulate such stocks as are represented by the Industrial Average before he begins to buy the Rails. Later on, when the public and the more speculative element climbs on board this bull market, I am inclined to believe that the rails will get their upmove."*

Thus, the modern-day Dow theorist regards the rail pattern in a somewhat different light than thirty years ago.

Advances, declines, and breadth of market studies

Over the years a great many analysts have studied and experimented with such market statistics as the number of advances, the number of declines, and the trend of the breadth or scope of the market itself. As a rule, 10, 20, or 30-day running averages are used.

I consider these valuable and certainly would not attempt to

interpret the market's behaviour and possible future course without them. However, when considered alone without the broad background of a trained analyst as a system of trading, their value is reduced greatly. Stop to think about this for a moment. Advances, declines, and breadth of the market trends are an effect, not a cause. The market will show these characteristics, just as it will show a trend in the averages, as an effect of a strong or weak technical or psychological cause within the market itself. To rely on this highly specialized type of indicator too heavily in your dealings is risky, and is only for the trader or investor who can give his full time to it. For the great majority of investors, the tendency is to wait too long before acting or to close the barnyard gate after the horse is out. Remember, what we as investors try to do is to anticipate the market's movements before they come, not after.

The three cycles following world wars

Nobody knows if there will ever be another world war, but if there is, investors might take note of the following observations and the brief discussion given to them.

Every major war that this country has been in has been followed, first, by a very brief recession, some long years of inflation, and a boom in stocks.

Such wars have brought about *three huge inflationary up-cycles* within our economy. First, has been a major upwave in commodity prices. Second, has come an upsurge in real estate prices. And third, the economy has witnessed a great upmove in the stock market.

Following World War I, commodities soared into 1920. Real estate boomed into 1926 and continued strong for several years. And the stock market skyrocketed into 1929.

Following World War II, commodities zoomed into 1946 and then came back to about the same top during the Korean War in 1951. Real estate has soared and appears to have topped out in recent years, but is still strong as of now. And the booming stock market looks like it may record its final peak in late 1960, or possibly in 1961.

I relied upon my expectations for these *three major cycles* to repeat, following World War II, and at least a small part of my

success in predicting the great bull market in stocks since 1949 was due to my study and knowledge of them.

One word of caution may be in order here. I believe it is reasonable to assume that, if another world war develops in years to come, the government will again attempt to hold back inflation and will impose more restrictions, controls and higher taxes than ever before. For this reason, and because it is practically impossible to hold back inflation, it is logical to anticipate slower, longer and greater up-cycles to come in commodities, real estate, and stocks as a result of a new world war than heretofore.

While primary bull trends in the stock market up to now have lasted up to eleven years, it is entirely possible that if another world war develops, the bull market to follow may be one of even longer duration.

Volume indications are helpful, but often deceptive

A long-standing argument among all Dow theorists over the past 50 years has been whether or not a trend analysis, or the tendency of the volume of trading is ever trustworthy enough to be relied upon.

As a general rule, when after a long period of dullness after a decline the *volume of trading* increases on the upside during the course of a primary bull market, that is an indication of higher prices ahead.

By the same token, when after a long period of hesitancy and indecision after a rise the *volume of trading* increases on the downside during the course of a primary bear market, that is generally an indication that lower prices will follow.

Reliable indications of what the future holds in store for us by current trends in the volume of trading are difficult indeed to detect. Day-to-day observations are most deceptive. Trading has a tendency to increase or to decrease according to the day-to-day news and to the way the public interprets that news. Therefore, the longer week-to-week or month-to-month trends in volume that reflect investment buying or selling generally are more reliable.

Yet, when we look at market trends in retrospect, the volume of trading that has occurred usually has a story of its own to tell. Upon close examination, for example, a long period of dullness

often discloses a waiting, watchful market that later begins a move on larger volume once the awaited news is out.

Under the newer Dow theory considerations outlined in this book, volume trends may be correlated with benefit, for example, when the Dow-Jones Industrial Average approaches the 200-Day Investment Line, or during an area where the Short Interest to Daily Volume Ratio is telling us a bullish or bearish story, when our Odd-Lot Studies are giving the market a bullish or bearish character, during the beginning or end of the various phases of either a bull or bear market, and so on.

It is also well to remember that the *volume of trading* is a direct reflection of mass psychology. Often when the masses are being deceived by their emotions, the volume, too, may be the most deceptive.

Research should continue to develop new indicators

It is my hope that the foregoing chapters will inspire analysts, brokers, and market researchers to improve existing methods to aid investors in building profits in stocks, and to develop new ones.

A wealth of information comes out each week in *Barron's* on a double-page spread entitled "Study of Price Movement-Market Laboratory." Nowhere that I know of has any other newspaper publication come out with as much vital market information for investors. My years of compiling detailed information, keeping a record of it all, and then the effort to render a helpful market interpretation from it for the benefit of investors everywhere, has given me an insight into the great amount of work involved, and I have always respected *Barron's* very highly for the excellent job they are doing and have done for investors in publishing their helpful market statistics over the years.

The studied and sophisticated investor and trader is well aware that you can't find helpful market information just anywhere you look. Brokers, newspapers, magazines, and services generally have a tendency to tune their writings to what an emotional public wants to know—to the news events that are influencing people emotionally at the time—and not to the basic technical, psychological, and philosophical helps that the public needs and will do them the most good.

As time moves along, I feel that brokers and the exchanges will give more and more attention to constructive investor guidance. This is the type of thing that builds confidence among the public and better business over the longer pull. Customer's men, brokers, bankers, and financial writers should be trained in the practical investor guidance just as a physician is trained in the practice of medicine, an attorney in the practice of law, or an engineer in the practice of engineering. I have noticed that the exchanges and many of their members are making greater efforts in this direction, mostly in the form of publishing valuable market information for the investor to read and study.

Any investor, analyst, broker, or market student who wants to improve his chances for success in the stock market could do so through a study and research of the factors which influence the market's price movement, a study of investment procedures, and a study of mass psychology, including himself. We will now move along to explore some of these other considerations, and to see how they have helped many of my readers since 1949.

Chapter XV

PSYCHOLOGY OF THE CROWD

The masses live by, and are ruled by, subconscious and emotional thought processes.

The eminent French sociologist, Gustave Le Bon, who lived about 100 years ago, and who made many observations in mass psychology that are true to this day, once said:

> *The crowd has never thirsted for the truth. It turns aside from evidence that is not to its taste, preferring to glorify and to follow error, if the way of error appears attractive enough, and seduces them. Whoever can supply the crowd with attractive emotional illusions may easily become their master; and whoever attempts to destroy such firmly entrenched illusions of the crowd is almost sure to be rejected.*

In a discussion of what would be the most effective means of appealing to the crowd with the truth, Le Bon said that people are most likely to arrive at truthful or right conclusions through a reference to past experience. Here is what Gustave Le Bon believed and said regarding experience and how it could finally influence the crowd:

> *An often-repeated reference to past experience is almost the only effective process by which a truth may be firmly established in the thinking of the masses. Thus, false illusions that have grown dangerously large for the public's own good may eventually be destroyed. To this end, however, the truth as illustrated by past experiences must be brought forward in various manners on a large scale, and this process should be repeated frequently and emphatically.*

During the past eight years, or since 1952, I have experimented with Le Bon's concept of reaching the investor public with what I believed to be the truth about the great primary bull market underway. The false illusion that needed to be destroyed among the crowd was that "stock prices were high enough, would not go higher, and probably were going lower."

As mentioned earlier in this book, in 1952 I issued a special study entitled "*The Coming Boom*," in 1953 I wrote another called "*The Boom Begins*," in 1954 I published still another with the title, "*The Boom Expands*," in 1955, I wrote, "*Higher Prices Coming*," and so on.

Each year from 1952 through 1959, I have issued one or two special boom studies, each filled with truthful references to past experiences. In my effort to counteract and to replace the false bearish illusion among the fearful investor public that stock prices were at dangerously unsafe levels, I advertised my bullish views in these studies on a large scale, as suggested by Le Bon's writings, in large informative 2-to-10 page ads in leading financial publications from time to time as the bull market progressed upward.

I would estimate that the expense of these ads has come to between $300,000 and $400,000 over the past eight years and all of this was done in a spirit of helping the crowd to overcome their iron-clad illusion that the stock market just couldn't go higher. In these ads, while the Industrial Average was still at the 300, 400, or 500 levels, I often repeated the reasons why a much higher market was expected, and used ideas and thoughts related to past experience and to my bullish Dow theory and technical studies to help the reader to establish his bullish thinking in regard to the fabulous long-term bull market underway.

Of course, since many other analysts were advertising bearishly, the competition was almost overwhelming, and only a relatively small percentage of all who read my ads, my advertising in the mails, and my weekly letter, were thoroughly convinced that a major bull market was with us all the way up. Out of an estimated 500,000 readers, I have approximated that 25,000 received some benefit, and that's only 5%. And, out of today's total of 12,500,000 investors, it is only ½ of 1%.

Back in 1954, a reader in New York City wrote to say, *"Schaefer, you seem to be blind to the great dangers of this market. I suggest that you take the time to read what other writers are saying. You are what I call a 'perpetual bull.' I am afraid of a bear market and big losses ahead, and for that reason, I can't go along with your reasoning. As I see it, lower prices are coming."*

What this reader meant was that he was part of the crowd that was exposed to the preponderance of bearish thinking among analysts and his friends. He, like the majority of investors in those days, was possessed by a false bearish illusion. And, no matter what any bullish analyst like myself might say—such a thought was promptly rejected.

The psychology of the crowd is highly contagious, and whether it is giving a bearish or bullish response to the news or to the market doesn't matter. News from all over the world and the market's response to it travels fast these days, and what is known in New York City is also known in Los Angeles simultaneously.

That is why the stock market may witness a sudden stampede of buying or selling among today's 12½ million investors with very little warning.

Wall Street in the early 1900's was regarded as the country's one and only street that held a large concentration of investors, investment funds, and investment knowledge. Today, however, people can handle their investment affairs intelligently and quickly in any financial section of many cities and towns throughout the nation. Thus, the psychology of the crowd is spread from coast to coast; and, therefore, the analyst who wants to study the investment thinking of the masses for himself must travel from coast to coast.

In my trips throughout the nation I have made many speeches and have interviewed thousands of investors. My observations in the market behavior of people all point in the same direction. While no two investors are ever alike as individuals, when observed as a group, mass investor thinking is highly emotional and is most easily influenced by "fear" when the market is uncertain, and by the investor's desires, or "wants," when market conditions are bullish. Both are deep subconscious thought processes given to us at birth. We were born with the urge to "want" food and the mechanism to respond to "fear." As we grow older a large part

of our daily living is devoted to getting the things we want and to avoiding the things we fear.

When the stock market stages a sizeable decline, the emotion of "fear" slowly comes into play and finally grips the investor public. This fear of losing money brings on a feeling of insecurity among the crowd and other emotional disturbances which encourage getting rid of the thing that is feared, of the sale of stocks for some emotional relief from the worry and fear of losing more money.

Then, when the market rallies, another basic urge within our emotions gradually takes over, that of wanting to get in on the upmove. As I will discuss in the next chapter, there is a fundamental reason why people have unlimited "wants." They want more money because of what it will buy for them, and a rise in the stock market, an opportunity which few will deny, is an easy way to accomplish the profits to supply those "wants"—providing, of course, that the price of the stock purchased goes up.

History reveals that mass psychology sometimes swings to almost unbelievable extremes. Often a bearish trend goes so far beyond logical reason that it becomes ridiculous. And the same is true on the upside. Let us review, briefly, some outstanding instances in history where the psychology of the crowd became rampant and prices reached ridiculous heights.

The "tulipomania" in Holland provides an early example of mass psychology as it affected the market for tulips over three hundred years ago.

Tulips were first introduced into Amsterdam from Turkey in the 16th century. Rich people paid extravagant prices for them. The passion for possessing tulips soon caught the middle classes of society also, and shopkeepers and merchants of moderate means began to compete with each other for these rare flowers, at preposterous prices. By 1635, fortunes were being paid for a single bulb. One root of a rare species called the Viceroy commanded 2,500 florins. This amount was equal in value to a list of 12 items that included a suit of clothes, a complete bed, 4 oxen, 8 swine, 12 sheep, 1,000 pounds of cheese and 4 lasts of rye. The psychology of the crowd became more and more contagious and soon everybody believed that the demand would last forever, and that poverty would be banished from the shores of the Zuyder Zee.

This widespread belief in permanent prosperity—and the ever-increasing participation of new and inexperienced investors—has preceded the end of every major speculative boom in the past three centuries.

In Holland, people of all classes converted their property to cash, and invested it in tulips. By 1636, the prices of necessities were rising almost as fast as the prices of luxuries. The wealthy and more sophisticated soon recognized that this could not keep going on endlessly. Instead of being carried away by the crowd and planting more tulips, they began to sell their bulbs at a profit. Somebody had to lose. As this became more and more evident, a mass fear psychology took over. Buyers turned to sellers as the fear of losing more caused a panic among the crowd. Defaulters added momentum to the drop. Tulips which had once cost 6,000 florins could be bought for 500. By 1637, thousands were bankrupt as the tulip craze ended and many years passed before Holland's commerce recovered from its shock.

Early in the 18th century, many Englishmen were casting covetous eyes at the immense riches believed to be hidden in the gold and silver mines of South America. Inexhaustible wealth was imagined to be in Peru and Mexico. To exploit it, the South Sea Company was formed in 1711, by the Earl of Oxford. It was highly successful. A monopoly was soon granted by parliament, and the king became its governor. Limited largely to the wealthy, in the company's early years, it was decided, in 1720, to let pensioners of the State receive South Sea stock in exchange for their annuities. In a short time more than half of these frugal and cautious annuitants became shareholders. In a six-month period the price rose from 128 to 890. A month later it touched 1,000. At this tremendous premium the directors flooded the market with five millions of stock. The annuitants bought more. A crowd of imitators followed South Sea's idea and wild speculation gripped the country. Exhange Alley was packed with mobs from the time trading began each day until it closed. Ready markets were found for the shares of fraudulent companies who offered dazzling schemes. One had the audacity to float shares of a company "for carrying on an undertaking of great advantage; nobody to know what it is." Another claimed it could "extract silver from lead." The honest companies and newly rich annuitants were caught in

this spiral of greed and avarice. Finally the bubble burst. South Sea stock began to drop. In four months it fell 865 points to 135. Thousands were ruined and hundreds fled the country to escape their debts. Bank of England shares fell with the rest. Millions of dollars were spent in the years that followed for the relief of penniless, inexperienced investors who had tasted wealth but didn't know the right time to sell.

Perhaps the most spectacular of history's financial figures was John Law, the inflator of the stupendous Mississippi Bubble. In 1716 he proposed a plan to the Regent of France to rebuild the bankrupt economy that followed the reign of Louis XIV. His Mississippi scheme, which hinged its future on the speculative opportunities he foresaw in Louisiana, convinced the Regent that a way had been found to revitalize the finances of France. Law was permitted to form the Compagnie de la Louisiana ou d'Occident, with the exclusive privilege of developing the area drained by the Mississippi, Ohio and Missouri rivers. A boom was generated with just about every modern promotional device: prominent colonists, installment selling (similar to margin trading), glamorous prospectuses and the declaration of unearned dividends. The public was infatuated. A fantastic boom developed. Stock jobbers paid 16 times the normal rental of houses on the narrow street where Mississippi stock was traded. More than 300,000 applications were made for a new issue of 50,000 Mississippi shares. A hunchback was reported to have accumulated a fortune by renting his hump as a writing desk to eager speculators and it became necessary to erect some 500 tents for the convenience of unquartered stock brokers.

But, as in previous bubbles, the more astute investors and traders recognized the dangers of the situation in that prices would not continue to rise permanently. Quietly, and in increasingly larger quantities, their shares were sold and converted into cash. As the price advance hesitated, then turned downward, confidence waned. A great bull market was coming to an end. Soon there were few to be found who believed whole-heartedly in the tales of the immense wealth in Louisiana. Within a few days, the crowd became fearful and panic selling began. As the panic hit with full force, several people were said to have been squeezed to death in the doorway of a bank, trying to redeem their shares. French

credit soon collapsed, and with it the dreams of many Mississippi investors. The public had again bought too late and held on too long. Those who recognized and then acted upon the speculative warnings that had been flashed earlier were comfortably sitting on the sidelines throughout the panic with their profits tucked away. Once again, the bull market had been most profitable to those who bought early and held on patiently until the "bull" chorus became the loudest.

There may be some readers who will be tempted to write the foregoing examples off to periods when people knew little about investing their money. Therefore, let us jump ahead two centuries after the Mississippi scheme and take a quick glance at the similarities between the bubbles of distant history and the speculative spree of a much better educated investment public in 1929. The same elements were there to show excessive speculation and to provide adequate warning signals for an important top ahead. Bootblacks, barbers, and waitresses could be found in brokerage offices rubbing shoulders with millionaires and professional traders. Emotionally, all were hopeful that their "wants" would be supplied by easy profits in stocks. The belief that a permanent plateau of prosperity had been achieved was voiced by no less an economist than Professor Irving Fisher of Yale. Just days before the deluge, Charles E. Mitchell of the National City Bank was reported by *The New York Times* to see "no reason for an end-of-the-year slump on Wall Street." Even John D. Rockefeller, Sr., said, in an unprecedented announcement, a day after the October 29 debacle, that the sell-off "was unwarranted." Yet, despite these hopeful observations, stocks continued to decline drastically for years after the 1929 top, just as they always will after an enthusiastic crowd takes the bit in its teeth and when prices soar beyond any realistic relationship to values.

It is well to remember that a bullish enthusiasm among the crowd is contagious and generally is carried too far. Confidence breeds confidence, and increasing profits finally make formerly cautious investors head-strong in their bullishness until outright gambling on higher prices becomes perfectly acceptable to their thinking.

Once a well-imbedded psychological background among the masses has been in force for a number of years, the crowd is slow

to change its thinking. Even after a bear market, or a prolonged primary down-trend has been underway for a good long while, there are many who are still emotionally tied to the exciting gains of the former bull market, and the hope of its resurrection will prevail for many months to come. This slowness of change in mass thinking is also evident after a long primary bear market has been in force. Just as confidence breeds confidence, fear breeds fear. The fear of more losses to come persists as a vivid force in the minds of many investors, and this emotional conflict, when prices may be ready to move up, again serves to restrain the crowd from buying when prices are low.

Today's managed economy may influence mass psychology

Perhaps no single group of men studies the psychology of the crowd more than the politicians. They know, better than anyone else, that the masses are victims of their own emotions. Almost everything our politicians do and say is designed to have the proper influence upon people. Statements to the press, speeches before Congress or to the people, and all political moves are carefully considered so that they may get the desired effect and final approval of the public.

Investors must also recognize the fact that, although mass psychology was permitted to go unbridled in former market places throughout history, today's managers of our national economy are likely to influence and to control the investor masses by statements from people in high places. Thus, when in their opinion the market is dangerous and on the verge of collapse, they may come out with some reassuring statements from people in high authority regarding the market or the economy. And, conversely, when the economy managers feel that stock prices are too high, a fearful statement from some well-known official generally has the effect of slowing the market down and touching off profit-taking.

As a rule, however, such psychological counter-actions have only temporary effects. In the longer run, the primary trend of the market, whether it is bull or bear, will, under the Dow theory, run its full course.

During a prolonged bull market when strong inflationary forces are working, the Federal Reserve Board may tighten credit con-

ditions. This usually has a temporary deflationary effect upon stock prices; however, if the bull market has not completed itself, prices are most likely to move higher later on. In the course of a primary bear market the economy managers may loosen money conditions, but the easing of credit is not likely to stop the downtrend until the bear market has spent itself.

Another way that today's politicians have learned to create an attractive "illusion" is to bullishly influence the masses through the spending of money whether the government has the money available or not. So far, this firmly entrenched illusion has obtained the desired psychological result even though it required enormous totals of deficit financing. Someday, however, as the truth becomes known and increased government spending begins to be looked upon as an indebtedness that can never be reduced, people may look upon more and more deficit financing as an undesirable evil; and, if so, then a growing national indebtedness may create the opposite, or bearish, effect upon the psychology of the crowd.

Mass psychology, particularly its response to what this nation's or other major world power's political leaders may do or threaten to do, or some piece of surprise news as the Korean War in 1950, may have a considerable reflection in the stock market. Back in 1955 and early 1956 when President Eisenhower had his illness, the market sold off sharply as the crowd feared the worst. In late 1957 when Russia launched her "Sputnik I," and again in 1959 when the threatening Russian Premier Khrushchev visited this country, the stock market declined rather drastically as emotional fears regarding the future security of this nation swept over the investor public.

Therefore, temporarily at least, waves of psychological buying or selling among the crowd may upset the primary trend of stocks, and the importance of how the masses might respond to any given piece of news, good or bad, should not be underestimated as increased millions of additional people become interested in the stock market in the future.

Now that we have had a brief discussion of the psychology of the crowd, and its importance to you as an investor in an appraisal of the market's future behavior, we are ready to step into an even more fascinating discussion and study—that of the investor him-

self. In the next chapter, then, we will discuss our own personal psychological market problems, and we will see what you as an individual may do to improve your own chances of pushing aside the obstacles that may be blocking your way to future profits in stocks.

Chapter XVI

FINDING SUCCESS IN STOCKS WITHIN YOURSELF

"And ye shall know the truth, and the truth shall make you free." The Bible.

By understanding yourself, you may open the doorway to riches you never dreamed possible.

Let us take a good look at ourselves. In this chapter, I will give you the benefit of my own observations and experiences. You will get a new insight into your own thinking, and as the chapter unfolds you will find specific suggestions which may help you to be more successful in the stock market.

Over 95% of all investor behavior can be traced to what might be called a mixture of deep underlying human emotions. From the time we were born, we have done emotional thinking and have had basic emotional wants. We wanted food, love, comfort, sleep, security, a feeling of importance, and to respond to interesting new conditions.

Our emotions supply the energy which makes the mind work. They are classified broadly in two groups. The *positive* group is composed of those which stimulate good constructive thinking, such as, hope, love, desire, confidence, importance, pleasure, enthusiasm, sex, comfort, and so on. The *negative* group stimulates destructive thinking and it is made up of such emotions as fear, anxiety, worry, revenge, anger, jealousy, greed, hate, and hostility.

While nature gave us a variety of emotions, all of which serve their purpose in good, healthy, modern-day living—fear is by far

the strongest of them all. No doubt nature gave man such a vastly over-powering emotion so that he could preserve himself and survive the great dangers of pre-historic days. And survive he did.

Fear hasn't changed and thus remains the strongest of all man's emotions. Life, today, doesn't require such an influential emotion, and because of it, people are having difficulty in keeping themselves well-adjusted emotionally. When fear predominates, it has a destructive effect on the positive emotions of hope, pleasure, romance, comfort, love, sex, enthusiasm, the general good feeling of well being, and life itself.

Let us begin with the *positive* emotions and see how they effect our investment thinking. In my work with many thousands of investors, it has been fascinating for me to realize that in the great majority of instances, we are unaware of the part that our emotions play in our thinking, and the true reasons why we do what we do.

One day I had lunch with a friend who had over a million dollars in profits in stocks. He wanted to talk over some Dow theory and other studies with me, and when we finished our technical discussion, I asked, *"Joe, tell me, what keeps you so intensely interested in making even more money in the market? You have been right and have done exceptionally well since 1949. Most people would be perfectly happy and content with one-fourth of what you have in long-term capital gains."*

It didn't take Joe long to answer. Apparently, he had been thinking about this for some time. He replied, *"Well, I have plans to make several sizeable contributions in the next few years. I am getting up to a retirement age, and I want to begin to take it a little easier from now on. I want to rest and relax more, build up my health a little, and take a few trips and vacations. And yet, I don't want to give up my business life or the stock market entirely. I want to keep on giving money to some good cause or other as time goes on. And of course, I still have family responsibilities which I want to support. My profits in stocks which have come as a result of my market studies give me a great satisfaction and a good feeling of security for all these things, so naturally, I keep up my interest and study the market at all times."*

By the time we had finished our luncheon I felt that I knew Joe a little better. It was crystal clear to me that even though

Joe was a successful investor spending many long hours each day in studying the stock market, he was not hard, cold-blooded, and unemotional. The truth was that countless human and emotional thought processes were influencing his investment decisions and market behavior. His purpose in the market was to make money to fulfill such positive emotions as security, faith, helpfulness, love, enthusiasm, hope, pleasure, and a desire to live a long helpful life. All in all, I felt that Joe was a well-adjusted, seasoned investor.

I was invited to attend a metting of a group which contained a good many executives and their wives, and a few younger couples. In an effort to stimulate investment thinking, I turned to the attractive wife of one of the executives and asked, *"Barbara, you and Ken are doing very well in your business these days. If I may ask, just why have you become so keenly interested in the stock market?"*

Barbara pondered the question for a second and replied, *"Well, I haven't really thought seriously about the reasons why. We could put some nice profits in stocks to good use in many ways. Ken and I want a new house. We want another car. You know we have two children who will want to go to college someday. And, it would be so wonderful if we could take that vacation we have been planning for years. All of that takes a lot of money, and, of course, we are hoping that the stock market may be one way to get it."*

Ken didn't say a word. He just grinned from ear to ear. But another friend, a blue-eyed blond named Sue, spoke up and said, *"My husband and I have decided that the only way we are ever going to get some of the things we want is to buy some good stocks. We're going to have to make a big killing in something. We hope we are lucky and that whatever we buy will go straight up."*

No doubt, by now, you the reader have guessed that the important observation here is that *investors everywhere are interested in making money in stocks only insofar as that extra money will help them to buy what they want.* Yes, that is part of it. *But, even more important is the fact that so many of the investment decisions being made every minute in the stock market are to achieve peoples' wants, and therefore, are made on an emotional level.* Hardened executives, who wouldn't think of asking their wives about a decision they will make at the office, will talk things over with the little wife (and this is as it should be in many cases)

when it comes to investing in stocks. Invariably, however, such decisions are linked to a plan to put Junior through school, to buy a new house or car, to take that wonderful vacation, or some other family project that places the investment to be made in stocks on a highly emotional level.

Another emotional factor that appears to influence the thinking of people buying stocks is best described by the word "magic." From early childhood on, we have been impressed emotionally by magic tricks of the magician, and by miracles in the Bible, or in nature. This hope for a miracle in stocks is a factor that helps investors to buy even though, consciously, they may be unaware of its presence. In other words, secretly, we all hope that what we buy will double or triple overnight, even though our conscious mind will tell us such a thought is ridiculous.

Emotional thinking in the stock market is a strong influence to the older, more sophisticated investor, to the seasoned business executive, and to the general public alike. It seems to govern investment thinking, more or less, in all cases I have had experience with, especially in the younger, would-be investor group, who still believe in "miracles" and who haven't had the seasoning that time and experience will supply in later life.

During the discussion which followed a lecture to some university students, for example, I found that the mere possibility of garnering some attractive profits in stocks in later life aroused great emotional day-dreaming. To tell about it briefly, while they were interested in methods used to buy stocks, their innermost thoughts were about how they were going to use the money made to furnish their emotional wants. Many of these students said, *"When I get out of school I want to get married, I want a home, I want children, I want a business, I want a fine car, I want security, I want to live in California, I want to go around the world, I want—, I want—, and I want—."*

Now at this point you might say, *"What's wrong with that? We all dream about the things we want."* Stop just a moment, then, to consider what's happening all around us among millions of people in the market. There is nothing too much wrong with a certain amount of magic, or day-dreaming; only when too many people get in the act, profits in stocks just aren't made that easy. If too many people allow only their illusions and wants to rule them, and refuse

to study the market or themselves, the chances are excellent that an emotional market is at hand and the sad day of reckoning lies not too far ahead.

To you as an individual, studying the market and yourself, I cannot emphasize too strongly that it is important for you to realize that people make the market, and that human beings are dominated by their emotions, to an extent of 95% or more. And, you must attain the deep understanding that the average person interested in buying and selling stocks not only believes himself to be a clear unemotional thinker who weighs all the facts, but, as a rule, he is either unwilling or unable to analyze himself correctly enough to be a lasting success in the stock market. His emotions, if he is an average human being, are likely to be his downfall.

How the emotion called "fear" can wreck the best investment plans

Under my New Dow Theory methods, as outlined in the first 14 chapters, the primary trend of the stock market, to this writing, has been up since mid-1949. The bull market has progressed upward in three phases very much as expected, and hundreds of stocks have advanced 500% to 1,000% or more, besides paying good dividends.

Yet, take a look among your investor friends. You will find a high percentage who have losses or only small profits in what they hold. Why is this? Fear. Fear is the all-powerful *negative* emotion which may upset all *positive* thinking and bring losses to you as an investor.

Earlier I mentioned that the strongest emotion nature gave to man is fear. Fear can be so strong that it can make you shake and tremble. It can cause you to turn white as a sheet. It can make you get down on your knees and pray. It can influence you to take losses in stocks. And, if allowed to affect your daily living too much, it may bring on serious physical or mental illnesses in later years.

The emotion of fear among investors is complex and may be characterized in various shapes or forms such as anxiety, worry, dread, fright, alarm, panic, terror, and horror.

Fear is a destructive emotion. It will destroy and tear down whenever it can. When uncontrolled, it invariably shows a tendency to combine with other *negative* emotions such as hatred, re-

venge, anger, and hostility, and thereby it attains even greater destructive powers.

When a man is fearful and sees a way out, he runs. But when filled with fear and no place to run to, such emotions as hatred, revenge, and anger are aroused to combine with fear, and he fights.

Winston Churchill once said that a characteristic of the English is that when danger confronts their island they always stand ready to fight. What the Prime Minister meant was that, with no place to run to, they were so scared and fearful that their fears combined with hatred, revenge, and anger to a point where they are of necessity ready to fight.

I have seen fear overtake thousands of investors at critical or worrisome junctures all the way up in the major bull market underway since 1949. Generally, it served to wreck their financial programs. Often serious losses were experienced even though the stocks sold in panic and fear went much higher later on. I have spent hundreds of thousands of dollars in constructive, bullish advertising and in sending out an occasional free weekly analysis to former readers in an effort to help them counteract fear during the bull market since 1949.

Let us see, for a moment, what stimulates the emotion of fear among investors in the stock market. When a long primary bull market gets underway--and under our New Dow Theory a primary bull market may progress from four to eleven years—what is it that makes people get hysterical with fear and dump their holdings when, if held as the primary trend progressed upward, those same holdings might have built a fortune for their owner by the time the top was reached? Here are the situations that create fear among investors:

1. *People fear any threat to their national security.* As a nation when war is declared or threatened, fear takes a strangle hold on investors. When a war goes badly for the nation, or if our way of life (due to either a hot or cold war) is facing a possible change, the emotion of fear will dominate.

2. *The fear of losing one's money affects everyone.* The rich and poor alike fear the possibility of losing their money. The more money you have in stocks the more the fear of losing it will plague you.

3. *Worrisome news stimulates fears.* Any news of a worrisome or threatening nature to our security will bring on fear. The more serious the news, the more selling it generally will touch off in the stock market.

4. *A fearful mass psychology is contagious.* Fear breeds fear. When a fearful illusion has been created among the masses, all logic is thrown to the winds as the fear emotion rules. Conditions such as an over-abundance of fearful opinions among better-known services, analysts, and financial writers—or when the masses have their eyes focused on some preceding well-publicized low point in the averages, and that low is approached and then violated, such an illusion then begins to nourish a mass fear psychology that may finally snowball into a selling climax. Thus, many people succumb to fear near the lows of sizeable declines.

5. *The public fears the disapproval of its leaders.* Basically, the public elects its leaders in government because it wants to feel secure and wants to obey the rules for the good of all. Thus, the government, in effect, becomes a father to the people. Human beings learned to obey their own fathers very early in life, and when they disobeyed they were promptly punished, as a rule. Psychologically, then, this condition of early life stays with people until death. Therefore, there is a deep emotional factor within the public that fears the disapproval of people in high places, such as high government officials, and to some extent high ranking officials in industry and labor. Thus, if in the opinion of those in authority the market is dangerously high, or that certain speculative excesses are occurring, the public is most likely to become fearful and to sell.

6. *People fear that a bear market may go on indefinitely.* Once a sizeable down-trend is underway, no matter if it is only a worrisome intermediate decline within a primary bull market, or a true primary bear market that has been in progress for some time, fears become well entrenched in the public's thinking and it is inclined to feel that the decline will go on forever.

7. *Individuals retain all their past fears.* Subconsciously people fear the possibility of reliving their past fearful experiences. Once the public has had a shocking fear experience, they will always be afraid of its reoccurrence. All fears become so firmly imbedded in the subconscious mind that they are never forgotten and always in-

fluence future thinking. People became so frightened with the 1929 collapse, the great 1929-32 bear market, the financial adjustments necessary during the 1930-35 depression, the horrors of World War II, the Korean conflict, the cold war with Russia, and the surprise launching of "Sputnik I" by Russia that the dread and fright of reliving them with similar experiences represents a very real fear among the masses. For this reason, even the slightest indication of a possibility of similar fearful repetition may send the stock market reeling.

How you may profit by adjusting your own emotional thinking

All investors have emotions. But not all investors are emotionally mature enough to profit in stocks. I have found that the more successful an investor is, the more mature he is in his thinking about the market.

Back in 1949, one of my original subscribers had retired from his business at the age of 70. He owned a fine home, clear of all debt, and had about $50,000 which he invested in better-grade growth stocks. So far, I was pleased with what he had done. He bought ten well-diversified growth stocks. All were paid for. His dividends averaged 7% on his investment, and if the primary bull trend developed as I believed it would, he would eventually have an attractive long-term capital appreciation in his holdings.

However, I soon found out that my subscriber was not an emotionally mature investor. One day in 1949 he wrote to say how pleased he was with his profits and that he had bought more stocks on margin. His broker had pointed out that he could carry quite a few more shares by borrowing money (margin) on his present holdings. This he did. Prices by now were relatively higher. Everything went along very well, however, until June, 1950 when the Korean War took the market by surprise.

When the panic selling persisted, and the investor public went into its fearful selling hysteria, this subscriber made a long-distance call to me and said, *"What shall I do? All my profits are gone and I am beginning to show a big loss! My friends are saying that the bull market is over. Shall I sell? I can't afford to take a big loss. War is here again. This is terrible!"*

I did my best to reassure this subscriber by reminding him about

my bullish technical interpretations, and how, under the Dow theory, we were only in the early stages of a long bull market. The emotion of fear had a strong hold on him, however, and when a deluge of panic selling hit the market the next two days, he succumbed to his fears and sold out, right on the bottom.

It was not until prices were in new high ground again in 1951, and 1952, that this subscriber was able to overcome his fears enough to buy. At much higher prices, of course. And, then, in late 1953 when the Korean truce came and the market declined again to its intermediate low of September 13, 1953, the same thing happened all over again. Fear, once more, overtook this subscriber, he sold out at another big loss, and had no confidence whatever in stocks until they were in new high ground again in 1955 and 1956.

The same cycle of confidence at the tops and fear at the bottoms occurred several more times in this man's experience as an investor. Finally, he sold his home in an effort to recoup his losses, only to fall victim to his fears again, and about one year ago he died, broken-hearted and penniless.

As I recall his original portfolio of ten growth stocks purchased in 1949, his original $50,000 would be worth well over $285,000 today, not counting the dividends. The only logical reason I can think of why he had the confidence to buy near the lows in 1949, when most people were fearful, was that he was inexperienced and hadn't developed the market fears that beset the public once a position in stocks has been taken.

About 50% of the cure for an emotional maladjustment in the thinking of investors is in the full knowledge that an abnormal disturbance is there. What has been said here, so far, then, may be helpful to you in understanding the problem. In cases where a serious emotional problem exists, one that threatens the mental health of a person, the help of a well-qualified psychiatrist may be needed to arrive at the root of the trouble.

The other 50% of a program for emotional maturity in the stock market is in taking constructive steps in your reading, study, thinking, and discussions with others to bring your emotional thinking around to a healthy balance.

It is normal for man to have all the *positive* and all the *negative* emotions mentioned in this chapter. Even fear, if under control, is a very necessary and beneficial emotion for all human beings.

Without fear, we would take unreasonable chances and eventually we would destroy ourselves.

However, the objective is to reach a healthy balance in our emotions. And this healthy balance, of course, is what the successful investor has accomplished to gain and to hold his profits in the stock market, and to enjoy life, generally. By the same token, it is also the problem that every unsuccessful investor faces, if he is to "grow up," so to speak, and to find his own road to success in the market.

Now you may ask the questions, *"How can an investor reach a mature emotional level in his thinking? How do we know when we are one-sided in our emotional behavior? How can I balance myself in my investment thinking when I become too confident, or too fearful?"*

The way to check yourself is simply to face the facts and to itemize your profits and losses over the past five years, the past ten years, and the past fifteen years.

Nothing is more revealing than your own record over a period of time. There may be a logical excuse for an occasional mistake, but there is something wrong if—over the years—you have nothing but losses to show for your efforts.

Perhaps you show a reasonable profit over the past decade or so, and still, you would like to know how you might make an improvement in your record.

I feel, of course, that anyone with the determination can improve himself in the stock market. This improvement will not come overnight. It is a slow process, to say the least. And here are the reasons why.

You were born with your emotions. The chances are excellent that during the early formative years of your life, you were given just about everything you wanted. Food, love, comfort, toys for your pleasure, and plenty of attention. As you grew older, you were scolded for being naughty, you became fearful of certain things, jealous of someone, angry upon occasions, you built up certain hopes and ambitions, found things that interested you, and so on. Thus, emotional patterns were established in your early life, and these, psychologists tell us, are likely to continue all through life unless vigorous, repeated attempts are made to change them.

Man's mind is composed of two parts, the conscious and the sub-

conscious. The conscious mind is generally thought of as being located in the outer layers or just below the surface of his brain, while the subconscious mind lies deep inside.

From birth on, we develop our conscious mind, or the outside layers of the brain, to think out our problems consciously, and these repeated efforts, in turn, relay our thoughts to the subconscious mind or inner area of the brain, and then to the emotions via the spinal column, which is the nerve center for the entire body.

All our emotions, both positive and negative, lie ready to give or to receive impulses to and from the spinal column, to and from the subconscious mind, or the deep-down parts of the brain, and to or from the conscious outer area of the brain.

Therefore, there exists a chain of responses from the conscious, to the subconscious, and to the emotions. These responses can and do go either way—from the emotions to the conscious, or from the conscious to the emotions.

Assuming that we are not so emotional or out of a normal balance in our thinking that we need the help and guidance of a psychiatrist, then there is hope for the investor in building his own favorable emotional balance regarding the market which, over a period of years, will help him to greater profits in stocks.

How to do it? Perhaps you have already guessed. The truth is, because you have read this far, you have already made a beginning. You have shown that you possess a strong *positive* emotion called *desire.* The desire to improve yourself, your thinking, and your possibilities of profits in stocks in the future is a valuable emotional asset in your favor. There may be countless reasons within your subconscious mind as to why you desire to continue reading.

You may be making a realistic appraisal of yourself, your emotional situation, and your capabilities. A realistic evaluation of your own short-comings, accepting them, and the belief that you can do something about them may be getting some attention from your conscious mind. You may be feeling responsibility, the feeling of wanting to become genuinely independent, or the feeling of wanting to grow up emotionally.

Now the next step is to begin an active program to develop your own feeling of self-confidence in the market. This may be done through sound, constructive thinking within your conscious mind which, in turn, will telegraph exciting truths to the subconscious mind, and then to the emotions.

In other words, the process of emotional thinking to the conscious mind is reversed. We are now bringing conscious truths to the emotional level. As this process is expanded, the emotions will respond pleasantly and will supply the energy needed for more and more truthful conscious thinking.

I have seen researchers, working to find more and more truths in their particular field of study, be supplied with an unlimited amount of energy by their pleased emotions—so much that men have been known to work 16 to 20 hours a day without tiring.

How can one develop the ability to cope with the great fears that appear in the stock market from time to time? There are several ways in which this may be done. It must be recognized, however, that since people are different, exactly the same formula could never apply to everyone. Therefore, study yourself carefully. First, you will see your own emotional difficulties more clearly, and then you will be ready for the suggestions which follow.

Just as the structure in every leaf on all trees is different when put under the miscroscope, or as no two fingerprints are ever exactly alike, so the mind and thought processes of each person that has ever lived on this earth have been different. Nothing is more complex than human beings, unless it is the universe itself.

Then, once you realize that there is no one else like you and that you are an individual who stands alone with your own particular mental and emotional make-up, you will understand then that it is up to you to find the exact details of how you are going to make your ten thousand, one hundred thousand, one million, or one hundred million dollars in profits in the stock market, depending upon your starting capital.

My experience with successful investors all over the nation indicates that the pathway to emotional maturity for success and greater profits in stocks generally lies within an area covered by the following seven suggestions:

1. *Study market trends.* The first 14 chapters of this book will give you an example of what may be done to replace your fears with logical, truthful, technical ways of thinking. May I suggest that you read them over and over again? Then begin to do your own research on the market. Study people, get the facts, draw some charts, compile figures, study what the various services have to offer, and try to correlate what you are working on today with something you might have read or studied weeks or months ago. At the

beginning this may be difficult for you to do, but do it anyway. It will become a pleasure later on.

2. *Take time off to relax.* After you have worked exceptionally hard on some particular market study, then take some time off to relax. Go fishing, boating, swimming, dancing, to the theater, to a baseball game, mow the lawn, take a vacation, or take a ride into the country. Do something entirely different for a while, and then at your earliest convenience go right back to your studies again. Periods of relaxation help to arrange and to classify what you have worked on before within your subconscious mind. Your subconscious never quits working even though the conscious mind is relaxing. You will find that quite often while you are doing something entirely different the subconscious comes out with the answer to a problem you have been unable to solve consciously. Then too, this process of finding the truth touches off a strong emotional response that supplies a good feeling and the energy to do more research on the problem at hand. Remember, your subconscious mind never stops working for you. Even while you are asleep, the work of the subconscious continues.

3. *Select your reading carefully.* Most investors do a great deal of reading. However, I find that as a rule they select their reading material carefully. There is no set pattern to it, but I think it safe to say that part is done for relaxation and the rest for information about what is going on in the world and in the market. Reading is a form of communication with the author. The right kind of material will help stimulate constructive thought processes and help balance the emotions. To read one scare story after another, with nothing to counteract the fears aroused, may upset an otherwise healthy emotional balance over a period of time. Investors who read nothing but bearish services and other bearish financial writers, and then go into a broker's office to read some more bearish material there, almost invariably turn bearish and they may find it rather difficult to adjust to a new bull market when it appears.

4. *Read before retiring.* Within a few months after you have begun your program of constructive financial reading, you will find research that interests you. Upon a second or third reading of such constructive work, read it just before retiring. Read parts of this book, for instance, chapter by chapter, just before you go to sleep

at night. You will find that your subconscious mind will digest it all for you over a period of time. And, within a few months, you will realize suddenly that you are thinking better, and that you are gaining strength as an investor. Once any book or market study has helped you, never lay it aside for good. Always go back to it occasionally, year after year. Underline the parts you believe important. You will find that your mind will detect brand new meanings, new ideas will appear, and all this will be nourished by a new upsurge in your emotional energy for even better and more profitable thoughts to come.

5. *Cultivate successful investors as friends.* One of the most difficult things to do in life is to recognize a truly successful investor. When it's all said and done, the successful investor is he who has gone through a complete cycle—from the bottom of a bear market to the top of the following bull market and then back to the bottom of the next bear market—and who has multiplied his original starting capital many-fold in that period. You will find that it's human nature to tell about the profits and forget to mention the losses. Also, most investors, I would say perhaps 95% of them, are emotionally inclined to put their best foot forward, and it often takes a trained psychiatrist to get at the truth. From early childhood on we have been taught to cover up anything that might not be acceptable to our friends. And, by the time we are 40, 50, or 60, the truth is so covered up that only our deep subconscious mind remembers it at all. Even so, true friends recognize and accept each other's difficulties, and in their communications generally are very helpful to each other. I have noticed that such thinking people as successful scientists, authors, actors, physicians, attorneys, and investors are often the best of friends. The reason is: they help each other.

6. *Deal with a well-adjusted successful broker.* Your broker may be a most helpful person to you in your efforts to achieve success in the market. And, again, not every broker, or customer's man, is the right one for your particular personality and emotional considerations. For example, if during a temporary decline should you be filled with fear, and if your broker is filled with fear too, you may both decide that your stocks should be sold right at the bottom. Or, you may both decide that you should buy near the top if both of you are emotionally enthusiastic at that point. There-

fore, it is most important for you to think about this problem and to select your broker carefully. When you are in need of a physician or an attorney you don't take the first one that comes along. No! You finally select one in whom you feel sure that you can place your confidence for the job to be done. Very often, the difference between success and failure for an investor in the stock market may lie in his selection of a broker or customer's man. Here again, each individual investor must do his own choosing, and, in my opinion, considerable thought should be given to how well the broker is adjusted emotionally, and how much he has to offer you in the field of market research. Also, what technical or Dow theory studies does he work with or follow?; is he a serious type or a playboy?; does he go strong for social activities?; how badly does he need commissions?; does he believe in trading?; how many successful customers does he have?; who are they?; how long has he been in business?; and, is he the type who will fit in with your own personality to accomplish the profits in stocks that you want?

7. *Don't let the printed word fool you.* I think every investor should understand that some newspaper columns, magazine articles, books, and advisory services are written by people whose opinions may not be as good as your own. Many work for less money a month than you do, and have never made profits in the stock market. Yet, since their opinions come out in print, investors give such opinions added authority.

I learned my first lesson regarding how misleading the printed word might be from an old grey-haired professor while I was doing graduate work at the University of Illinois back in 1932. At that time a severe depression was on. Stocks had had a decline that would go down in history as one of the worst ever.

One morning in June, 1932, the aged professor and two students came to the classroom with armloads of newspapers, magazines, and services all of which had been written and published a few weeks to several months before the 1929 crash. I could hardly believe my eyes. He pointed out and read what one financial writer after another had to say in those days as the stock market zoomed. Here was case after case of the printed word which the public took as the gospel truth in the first eight months of 1929, with not a word of the great crash to come.

If you as an investor today are inclined to be impatient for the

arrival of your favorite financial paper, magazine, or service—allow me to make this suggestion. Go back to critical junctures for the big bull market underway since mid-1949 and see what your favorites had to say at that time. Look up the issues of June, 1949, or September, 1953, or October, 1957, or March, 1960 and see what their opinions were then. Take time out to look these up in your broker's files or in your library. I think that you will be a wiser and more emotionally balanced investor for it if you do.

Chapter XVII

WHY THE ODDS ARE AGAINST YOU IN TRADING

Emotional roadblocks must be removed before you can travel the road to profits.

If you are an in-and-out trader, you may not like what I have to say in this chapter. Sometimes the truth does not make pleasant reading.

You may stumble head-on into the heart of a problem that has been worrying you for years. And, for some reason or other you have refused to face it. The fact that you have losses, or have missed the boat in getting the truly great long-term profits that you might have had since 1949, simply by refusing to hang on to your stocks and by trading, probably satisfies a deep emotional disturbance within you.

One of the favorite expressions of active traders in stocks is, *"Never look back."* Why? Because there stands the truth that, had you obeyed it, might have made a fortune for you. It's almost as if you were being punished. Later in this chapter we will see why some traders get an emotional satisfaction from taking losses.

Let's accept the fact that it is only human nature for most investors to want to make a quick profit in the stock market from time to time. My estimates indicate that from 30% to 50% of all investors will do a little trading occasionally at least, and this is normal. In fact, an occasional switch may have a beneficial effect on any investment program.

Perhaps you have wondered how you may improve your trading technique, why your present system hasn't done too well over the years, or just why it is that you lose money so consistently.

I have done research on this problem for many years. In my efforts to ferret out the truths about trading, I have interviewed hundreds of traders, large and small, sophisticated and unsophisticated, in all parts of the country. And, I now will give you the benefits of this work.

The thinking of the great majority of traders is highly emotional. As in the case of most investors, the basic underlying reason why they are in the stock market is to satisfy a variety of emotional wants. The stock market is simply the vehicle being used to satisfy those wants.

Emotionally, I have observed that traders are very sensitive, and well above the average in intelligence. An unusually high percentage of them have emotional troubles, sometimes these emotional difficulties do their damage in creating mental disturbances, and sometimes they come out in physical illnesses such as stomach ulcers, heart trouble, a diminishing sex potency, nervous tensions, and poor blood circulation—and unless the underlying or basic emotional maladjustment is corrected, the situation has a tendency to worsen over the years. Almost any emotional trouble can be corrected, however, if you recognize the problem and do something about it.

In cases that I have observed over the years, the early signs of emotional difficulties ahead for the trader are an inability to get a good night's sleep, a feeling of insecurity within yourself, a tendency to worry unduly about a market position, and stomach nervousness. The expression, *"I feel as though I have butterflies in my stomach,"* is quite common among traders.

As I have outlined in the preceding chapter, our emotions may be divided into two groups . . . . the *positive* and the *negative.* We need both for healthy normal living. But they should be in an emotional balance. It is only when one group is over-emphasized and dominates too strongly that we get into trouble.

Traders and investors alike seem to form similar patterns of emotional thinking. These patterns are stimulated by emotional energy in a cyclical tendency which develops as follows: *fear, pessimism, caution, desire, confidence, faith, hope, enthusiasm, optimism, exuberance,* and *greed.* You will note that at each end of the swings in this pendulum are the *negative,* or destructive, emotions while the *positive,* or creative, emotions are in the middle.

The pendulum of emotional thinking swings in both directions. Thus, the profits that have been built up by our *positive* emotional feelings and constructive thinking in the stock market are usually destroyed by the *negative* emotions of *fear* and *pessimism* at the bottom of a market swing and by *exuberance* and *greed* at the top, as the market goes in the opposite direction.

Therefore, in the procedure of trading within the swings of the stock market, the old adage *"there is always room for the bulls and the bears in the stock market, but never for the hogs"* should be lengthened and supplemented by the words *"at the top and the scared cats at the bottom."*

Now if some of your *negative* emotions, such as *fear, anxiety, anger,* or *hostility,* are beginning to flare up a little as you read on, try to analyze what is happening within you. As you continue to read this chapter, you may well get to the heart of your trading troubles, and the chances are excellent that all of this will be highly beneficial to you in your trading in future years.

Back in March, 1960, the bull market was having a severe intermediate decline which had violated the lows in the averages recorded during the Fall of 1959. Fears were spreading like wildfire as Dow theorists of the Hamilton and Rhea school of thought called it a new bear market.

During that wave of selling an old friend and trader sat beside me in a large popular Chicago boardroom and said, *"This bear market signal that some Dow theorists say is here could just be the real thing. I was fooled into thinking that the market was going higher early this year and I bought a good many stocks right on top. Now I'm scared. I was afraid to hold them any longer, so I took my losses today. I am thoroughly disgusted with my broker, the services I take, and myself. Sometimes I feel that I should quit this business. I've ben buying and selling stocks for 30 years, and when I average my trading over all that time I haven't made a cent."*

His comments, of course, interested me, and so I said to him, *"Tell me, Jim, I know this is hindsight, but what would your investment situation be today if you still owned the stocks you had in the early days of this bull market? Say, for example, what would you be worth now if you had simply held on to the stocks you owned in 1949?"*

Jim turned to me with an angry look as he replied, *"Why, I'd be worth at least a half million dollars more than I am today. They*

shook me out in 1949, in 1953, in 1957, and now again in 1960. When the market gets as scary as it is now, I can't sleep, I can't digest my meals, my fears overwhelm me, I become irritable, and I have to sell out to get relief from it all."

In other words, Jim in his own way was saying that his emotional problems were very real and that they had cost him half a million dollars in eleven years. As I talked with him some more I also discovered (not much to my surprise) that Jim's *fears* always came near the bottoms of market movements and that, at the tops, he bought confidently in a spirit of optimism and hopefulness. Not all Jim's transactions ended in a loss, however. He had times when it just seemed that he couldn't lose. But even his most attractive gains had a way of going down the drain when the market had experienced its most drastic emotional upsets among the trading public. And these fearful selling panics seemed to come along every two, three, or four years.

Look into your childhood for your own emotional difficulties

Psychologists say that the most formative and most important years of an individual are from the time he is born until he is ten years old.

Some very important things happen to everyone emotionally during those years. Emotional patterns are originated, set up, and developed. Most parents have had little or no training in bringing up children, and the truth of the matter is that in the majority of cases the parents themselves are having some difficulties and are in need of emotional balance and guidance in this area.

As a result, the child often senses a lack of emotional security and stability right in his own home at a very early age. Therefore, it becomes logical to assume that as children develop fears, anxieties, and aggressive or hostile emotions towards their mother or father, often punishment is anticipated, and sometimes feelings of guilt or depression are stimulated and carried through life by the subconscious mind.

At an early age, we are educated through love, persuasion, and threats, all of which are directed towards making the growing child face reality. No one accepts the truth easily and without an emotional adjustment, no matter how grown-up we think we are.

Thus, as an analyst, investor, or trader, we find ourselves making

a study of people, of human nature, of ourselves, and we get a new insight into what makes the market tick. And when we realize that by the latest count over 12½ million people are involved in the stock market today, this study becomes even more fascinating.

In my years of study and research in the field of in-and-out trading, I have found the following emotional tendencies among people who are active traders in the stock market:

1. Their emotional make-up is such that they habitually take chances in the market.

2. The emotional swings of most traders are fast. They are quick to go from one extreme to the other. I have seen many instances when a trader was highly depressed and fearful in the morning when the market opened, and by noon or afternoon turned extremely optimistic and bullish, or vice versa.

3. As a rule, traders have trouble in learning from past experience. They go along for years, getting their money from all kinds of sources, regardless of losses, and they seldom stop when winning. When ahead, they gamble with increasingly larger stakes. Eventually, many have their final downfall by risking too much.

4. I have never found two traders who are exactly alike. However, they do have similar emotional problems based on their own particular childhood experiences and emotional patterns set up at an early age.

5. If the trader is a deeply disturbed person emotionally, he may be a compulsive in-and-out trader. He may be neurotically inclined to justify his actions and to regard his losses as a form of self-punishment. This pattern may be one that was established early in childhood when he disobeyed his parents, justified his questionable behavior to himself, and then anticipated the punishment that was coming to him. His reward: self-pity and an emotional resentment.

6. The trader often is a private rebel. His basic fears and insecurities make him feel as though he must argue with any concept, including the truth, because he finds it impossible to change and he must establish within himself a feeling of security regarding his own convictions.

7. Invariably, the trader goes by some kind of a trading system. Unable to achieve a healthy emotional balance in his thinking, or to look at the investment situation in a broad well-balanced man-

ner, he usually resorts to one or more easy-to-read methods of trading. This gives him something to lean on, something to go by, that supports his thinking and helps him to arrive at a trading decision. No matter how logical other considerations might be, he will stand squarely upon what his method or system indicates to him, right or wrong. Emotionally, then, the in-and-out trader has found a way to compensate for the deep disturbances that tend to distort the normal balance in his investment thinking.

8. When in extremely emotional or neurotic cases, the security of an in-and-out trader is threatened by his system, his financial reading, his broker's or banker's opinions, or by what the government does, etc., his fears may combine with anger and hostility. When completely upset by his *negative* emotions, he may cancel the service he has subscribed to, he may take his trading account to another broker, he may lambast his banker in a fit of anger and take his business elsewhere, write a letter to Washington, D. C., make life miserable for his family, and so on. All of these manifestations are indications of possibly serious emotional difficulties. They also suggest that trading losses have resulted somewhere along the line, and that he has regressed to self-punishment, self-pity, resentment, and revenge for his rewards.

Beware of a full dependence upon systems

Although I have interviewed many traders over the years just past, trading in stocks becomes a very complex thing when we try to study all the emotional reasons behind it, and I am positive that my discussion of it in this book does no more than to scratch the surface.

However, as a practical guide, I would suggest that you avoid the pathway to pitfalls for future trading losses by taking steps right now to learn all about yourself, emotionally, and to do everything necessary to put yourself on the road to emotional maturity.

The stock market today is composed of the sum total of all the thoughts and feelings of well over 12½ million people, and it seems very unlikely that one or two trading systems will ever tell you the whole story or spell out success for you in the market.

Perhaps what might be called the most widely-used trading system among the public is simply to buy stocks when they read or

hear that business is good and to sell them when business is bad.

Millions of investors are influenced in their buying or selling by whether or not business conditions are favorable or unfavorable.

The result, generally speaking, is that a great many people accumulate stocks while prices are high and are climbing higher; and, then, later on a great many of these same people become alarmed by worsening business conditions when it is too late, and they finally sell out at a loss in fear and disgust when prices are low.

The stock market has a way of discounting the future of business as many as six to twelve months ahead. Yet, the public reads only current business reports in the newspapers and business magazines. And, it is well to remember that most newspaper and magazine reporters make their writings interesting by stressing an emotional viewpoint, and are paid a salary by their publishers for giving the public a good lively story on the current news. As a rule, we read in the newspapers and magazines only what the editor thinks should be published. Editors are emotional and opinionated too. They can be wrong. And this must be taken into consideration.

Frequently, investment accumulation by seasoned investment sources begins when the news is the most pessimistic, and tapers off when the news is the most favorable. For this reason, by the time that the good news is out, and the public is ready to buy, stocks have often had a big rise.

Therefore, traders who watch the news and use it as a crutch in their trading decisions are likely to find that this system will usually disappoint them in the end in that it has a habit of being six months to a year late. Thus, such emotional buying may come near an intermediate-term top only to be followed by a worrisome decline which may shake out the fearful near the bottom again when the news reporters begin to express their own fearful emotional feelings once more.

Probably the next largest group of traders are the people who watch the averages for their clue of trends to come. Of course, the Hamilton and Rhea school of thought among older Dow theorists is in a sense nothing more than a trading system.

I have seen times when virtually millions of people had their eyes on some preceding intermediate low or high, and if an important low was violated, or an important former high was bettered,

such an event would influence hundreds of thousands of traders in their decisions, all at the same time. Another part of the Dow theory "system" that the public has learned from Hamilton and Rhea is to expect a one-third to two-thirds retracement of a primary movement from time to time. Even though such retracements have seldom occurred in recent years, the thinking of the crowd reverts to what it should expect under the Dow theory system, so to speak.

Are such trading decisions emotional? I would say *yes,* emphatically so! Emotional thinking is obvious in most instances when traders follow only the averages. New highs breed *hope, confidence, enthusiasm,* and finally *greed* among the trading public. New lows unleash such emotions as *caution, pessimism,* and finally the strongest of all, *fear.* Hope of a one-third to two-thirds retracement is often mixed with considerable *anxiety* or *worry.*

With hordes of would-be traders succumbing to their emotions as the averages go their way, either on the topside, or on the downside, it soon becomes apparent why the old Dow theory "system" is filled with emotional thinking. To go along with the crowd when preceding points of importance to the crowd are bettered, or are violated, seldom works out successfully for the trader. By the time that everyone is emotionally involved in either a buying or selling stampede, the time is getting late to follow the crowd, or the "system," any longer.

In 1940, I spent many of my evenings over a period of about six months in studying all of William P. Hamilton's articles, as written for *The Wall Street Journal* and *Barron's* from 1903 to 1929, and then comparing his predictions to what the averages did during the period immediately following.

I found that Hamilton's work, for trading purposes, was no more than 50% correct on the minor and intermediate trends. In other words, while Hamilton is regarded as having been a leading Dow theorist and successful in predicting the long-term or primary trend over the years, no one could have done very well in trading the shorter swings under his interpretations.

Actually, Hamilton developed his own version of the Dow theory, after Dow's death, and it is interesting to note that he mentioned Dow and his philosophy only occasionally during his 26 years of writing editorials for *The Wall Street Journal* and

Barron's. Yet, as I see his work, Hamilton had learned some important investment principles from his master, regardless of his own personal feelings, which were often not too pleasant towards Dow, and he strived to help his readers as best he could.

In my discussions with Dow theorists over the nation, several have mentioned the writings of Alfred Cowles III in regard to Hamilton's ability to forecast market trends. While I do not give too much authority to Cowle's study of Hamilton's work, nevertheless it is interesting. Cowles apparently had five investors read the editorials of Hamilton as they appear in Robert Rhea's book *"The Dow Theory,"* and then took a consensus opinion among these five readers as to what Hamilton would have done, either bought or sold, according to these editorials.

Where this committee could agree on articles which Hamilton wrote which were definite bullish or bearish forecasts, the final results of their findings and tabulations were that Hamilton was right 50% of the time, and this checks very closely with my own research on Hamilton's predictions for the shorter swings.

Of course, we must remember that to read what has been said in the past is a form of hindsight. There is nothing, or very little, that can be practical about it. What an investor or trader does involves foresight and the sum total of everything he knows, not just what he reads in one article. The process of constructive thinking must be translated into constructive action in the stock market, and that involves four steps which we shall discuss very shortly.

The Cowles study seems to suggest that, on the whole, however, from 1903 to 1929, Hamilton would have made more on his profits than he lost on his losses. Where equal amounts of money were put into the stocks which composed the Industrial Average over those years, it approximated that the profits and income combined would have averaged roughly 12% per annum, under what I like to refer to as interesting hindsight studies.

Under my own thoughts regarding Hamilton, had he stayed bullish from 1921 on up, not allowed his emotions to rule him in 1923 and 1926, and then sold out everything when he wrote his famous *"A Turn in The Tide"* editorial just before the 1929 crash, this long-term procedure would have netted an average

dividend yield of about 14% a year plus an average long-term capital appreciation of approximately 68% a year for each of the eight years of the 1921-29 primary bull market. Hamilton, however, refused to believe that such a great bull market as 1921 to 1929 was coming, just as so many people have refused to believe in this great bull market since 1949.

While the Cowles study and my own calculations are, of course, only approximate and represent hindsight, they nonetheless serve to point up the probability of lesser success in trading among the majority of investors even when it is being done by people with access to almost unlimited information.

Apparently, Hamilton as a newspaper editor and reporter was human like anyone else. He was emotional just enough to miss out on or be incorrect on approximately one-half the swings within the primary trend. And, to get on the road to profits in trading, the percentage of correctness in predicting the shorter trends must be much higher indeed. Here is the reason why. Besides being right on the trend of the market, you must have the information and ability to exercise a high degree of accuracy and skill in three additional activities; that of selecting the right stock, taking action in buying it, and then selling it at a profit. You can be 100% perfect in predicting what the averages might do, yet to make a profit you must pick out and buy a stock that is going up and then sell it at a higher price.

Thus, four steps are involved. All too often we read where some analyst pats himself on the back by taking the first step more or less correctly. But the odds for success are cut back drastically when the second, third, and finally the fourth steps are taken. It's very difficult to call four successful shots in a row.

Each step in the process of successful in-and-out trading is full of pitfalls: risks that are, in most cases, unforeseeable. Predicting the direction of the primary trend is a field of study in itself. When that direction is favorable, or bullish, and our technical indicators reflect strength for a higher market ahead, then the movement of individual stocks may come along irregularly, right away or later on, as a result of better earnings, a good piece of news, a favorable mass psychology, or the accumulation underway among long-term investors.

Then, after all of these considerations, the trader must be a well-balanced individual emotionally. If he is not, he probably will be jittery most of the time, allow his emotions to rule and follow the crowd by selling at the bottom and buying at the top. He must be a person who is unusual in that he has trained himself to go opposite to what most people might think and do. And, then he must have the courage to act. Buy low, when a movement begins, and nobody agrees with him, only to sell high when the crowd is enthusiastic and is buying. Too often, however, the trader is a deeply disturbed person, emotionally, and depends upon some trading "system" for support. For a while, it may well seem that the system works perfectly, and the trader, in that case, often builds up a false confidence only to see it fall apart on him and fail him at some later date when, of course, his fear emotion takes over and his profits turn to losses.

Have you ever wondered: why it is that trading services, that is advisory services which recommend trading in the market under their special "system," never give their subscribers a model account or a record of their past experience in trading?

Someday there may be one. And, it will be interesting to see how long they can stay in business. As I see it, the problem involved is a deeply emotional one. Lasting profits in the stock market are built on a foundation of logical thinking, not emotional thinking; and trading—so very often—is purely emotional.

You can easily detect how emotional people become about trading systems. Every boardroom, every large investment concern, has people in it who lambast the old Dow theory of Hamilton and Rhea. Why? Because in the past they allowed themselves to become emotional and to use it as a basis for their trading. And, they lost money. Therefore, they remain hostile and emotional about it. *Fear* often combines with *anger* and *hostility.*

In my interviews with traders over the nation, I have found that a large variety of trading systems are being used, and when losses result time and time again, the crutch finally crumbles and the fearful criticisms begin. Millions of would-be traders have finally become *fearful, critical, angry,* and *hostile* regarding their own and probably every trading system any of us has ever heard of immediately after that system fails them and tosses them into the sea of their own emotional disturbances.

Learn the art of taking a broader point of view

You might ask, *"Well what should we do? Throw out all the trading sytems? Should we quit trading altogether?"*

The answer is, *"No! Make a study of every available system. Learn all you can from each of them. But don't be dependent upon any of them. In time, you will get a broader insight into the whole problem, and this will help you in your future trading decisions, if you must trade."*

Every technical study of market trends, every movement in the averages, and every trading system reflects what the people are thinking and doing in the market. You can learn something from any and all of them. And the broader your viewpoint becomes, the more balanced your emotions grow, and the better your chances will be to profit in the stock market.

A great deal of research needs to be done in this area. Let's face it. If you are an average trader, playing the market on your hunches, by what your favorite system says, or by what your friends tell you, the odds are against your being a successful trader in stocks over a period of time, say five to ten years. At the end of such a five-to-ten year period, the chances are perhaps better than even that you will show a net loss over the average of all of your trading.

While relaxing in one of New York City's fashionable cocktail lounges with a partner of a large brokerage firm, we talked about business conditions. About the time I ordered my second gin and tonic we began discussing the pros and cons of trading, so I asked, *"B——, you don't have to answer this question if you don't want to, but you are in a position to know about thousands of trading accounts, and I'm curious to know something about your experience with them. About what percentage would you say are successful traders?"*

The partner was a man of over thirty-five years of experience in the business. After turning the question over in his mind he said, *"If you had asked me that question near the end of a bear market I couldn't give you a very encouraging answer. Because after the market has been down for a while traders with any profits at all are few and far between. However, right now, since the market has been in a bullish uptrend for a long time, we have some traders with fairly nice profits. I would hesitate to say what*

the percentage might be. That would take a little study and some figuring. But it isn't large."

"Are your successful traders those who go by charts and systems?"

"No, I would say that the chart and system people, as a rule, don't last too long. They do fine until something happens to their system, and then they begin to take losses and suddenly don't show up anymore."

"Would you say that, on the whole, your trader is as successful as the investor?"

"I think it is fairly safe to say that the long-term investor has made the big money in this bull market and is the more successful. Most traders grabbed a quick profit and sold out too soon in those issues that had the fabulous run-ups. And, when the 'shake-outs' came, the traders have had a tendency to get jittery and to sell out just about as fast as they got in. Some of our long-term investors, though, who didn't get scared, have built some wonderful long-term profits since 1949."

"Do you see any difference in the way a trader picks his stocks, as compared to the long-term investor?"

"No, I don't see anything different there. The trader picks them for a quick turn, while the investor may even select the very same stock, only he has the patience to hold on for the long pull."

"What makes the investor, as you see it B——, more inclined to hold on for the longer pull?"

"Well, I think he is more sure of himself. Many of our most successful investors are keen market students. You might say that, as a group, they try to look ahead as far as they can. The investor usually is an entirely different type of person than the in-and-out trader insofar as his temperament and training go."

"Do you think that your successful traders and investors educate themselves by what they read and study to be more successful in the market?"

"There's no doubt about it. No one works any harder than the man who makes money in the stock market."

This question, of course, opened up a whole new field for conversation, and is mainly what this and other chapters are about.

How can the trader educate and train himself to be more successful in the stock market?

The conclusion that I always come back to is that, if you must trade, cultivate the broadest point of view that your own personality can master. Study people, and the technical market studies that reflect what people are doing in the market.

Go to your bookstore. Find the latest books that deal with the emotional problems of individuals and of the public. See what new market studies are available, and correlate what you observe with mass psychology in the market. Remember, people make the market. Re-read and study this book, page by page. The second and third readings often take on an entirely different meaning than the first.

In my opinion, if you, as a trader, will master the principles discussed in all the various chapters of this book, if you will analyze yourself and work towards more and more emotional stability either by your own efforts and reading or through the trained guidance of others, you will find that the road to profits through trading will become easier.

I am convinced that hundreds of thousands, yes, even millions of traders and investors alike are losing money and are failing to reap the major gains to be had in the stock market by refusing to get at the crux of their own personal problems.

Chapter XVIII

MY PROCEDURE FOR MAXIMUM GAINS IN STOCKS

"Nothing astonishes the investor so much as when common sense makes the most money for him."

Up to now we have discussed the Dow theory, various market studies, mass psychology, and the emotional pitfalls of the investor, the knowledge of which will help you in your investment thinking.

In this chapter I will give you an outline of the investment procedure that, in my opinion, will produce maximum profits in the stock market for you.

But before we rush head-on into the procedure I have found to be the most profitable, allow me to stress just a little of the background and the common sense reasons that have made my procedure a successful one.

As an investor, you are subjected to and are confronted each and every day with the writings and opinions of the services, brokers, newspaper writers, magazine reporters, politicians, and your friends. A study of these opinions over a span of years will reveal that a very high percentage, perhaps 95%, are almost purely emotional. In other words, they are not based on technical research, logic, or other unemotional factors.

For years, I kept an accurate accounting of the consensus of opinions of the fifteen most popular services. Since the present primary bull trend started upwards in 1949, I found that when the consensus opinion of these services ran 80% or more bearish,

and they advised selling, the market was always near its low and a buy. When over 80% were bullish within this same primary bull market, usually a reaction set in not long after to shake the public out. Why? Because all analysts are human and emotional just like you and me. The emotions swing from one extreme to the other. When the next primary bear market begins, and if 80% or more of the services turn bullish during a rally, you can expect the decline to resume shortly thereafter for the same emotional reasons.

Then, among the few services who were right temporarily on the market's future trend, I kept a record of the stocks they recommended. I found that not all stocks recommended went up. Only a percentage. Over a period of time that percentage averaged about 55%. The other 45% of the stocks recommended did nothing, or went down, even though the averages went up.

To follow this study through, I watched the few services that had hit the nail squarely on the head in being right only to find that on perhaps the very next swing, they often erred and missed the boat. Sometimes they turned bearish and advised selling stocks short, others usually did some switching, and by the time I had finished this long running survey it was simply amazing to me to discover that almost no one was right long enough to make very much of a profit over a period of years. Look around you for a moment. It's difficult to find many people with large profits. It's always that way.

You may find this difficult to believe, but right now, even though history's greatest bull market has been with us since mid-1949, millions of people have suffered losses on the "shake-outs" that have occurred, all the way up. And many have gone broke, all at a time when the opportunity for profit since 1949 has been enormous; and, of course, was the greatest for those who were well balanced emotionally and well informed regarding the long-term primary trend.

An account executive in Los Angeles, alarmed that so many people had missed the best profits since 1949, pointed to the problem in this way, *"People have been fearful and slow to build up their hopes and confidence. I find that often after they have made a sizeable profit and have substantially enlarged their working*

capital in the market, they shoot the whole works on something that doesn't go up the way they expected. Then a severe temporary shake-out comes along, their profit quickly turns into a loss, they get panicky and sell; and often, what they sold on reactions since 1949 went up later."

It's because the most of us, perhaps 95% or more of all investors, live by the subconscious. We may think that most of our decisions are based on conscious, constructive thinking, but the truth is that we don't really know or understand why we do the things we do. Being the humans that we are, we live by the deep automatic workings of our subconscious minds, that, in turn, are connected with the spinal column's nervous centers and our emotions.

Therefore, the struggle for success in the stock market lies deep within ourselves. Consciously, we think that we know all. But practically, our subconscious and its emotional network never forgets anything and is our strongest decision maker. This is normal. It is human nature. It is so strong simply because our subconscious and our emotions go all the way back to the day we were born (and we might say to the womb) and for this reason, what we do in the stock market is most likely to be automatic and to follow the ways of human nature.

If you agree that this is the truth, then how are you going to overcome this basic handicap in the stock market? It can be done and is being done every day by thousands of investors. You can re-make yourself into a successful investor. You, and only you, can do this for yourself, however.

In my years of experience with investors, I have found that good sound financial reading, a constant repitition of investment truths from the conscious to the subconscious and finally to the emotions is the most helpful process. Do your reading in a relaxed state of mind, and when you run on to investment truths in your reading, let them sink into your subconscious and into your emotions.

Now let us go back 60 years and see what investment truths Charles H. Dow came out with in some of his editorials. Here are a few excerpts which I have found worthy of a deep penetration into my subconscious and emotional pattern, so deep, in fact,

that they have always stood by my side in any crisis or in any investment decision I have ever made.

The great profits in stocks have almost invariably been made by people who saw the tendency of events clearly, and who then bought a large amount of stock which they thought certain to get the results of a great increase in prosperity. Such stock has been either paid for outright or very heavily margined, and then it has been held for months or years until great profits accrued.

The best way of reading the market is to read from the standpoint of values. The market is not like a balloon plunging hither and thither in the wind. As a whole, it represents a serious, well considered effort on the part of far-sighted and well-informed men to adjust prices to such values as exist or which are expected to exist in the not too remote future.

The operator should then take in a great stock of patience. He will see and hear daily that something else is making riches for traders, but he must shut his ears to these statements, even if they are right as far as fluctuations go. He must just sit on his stock, which is intrinsically below its value, until other people observe that it is selling too low and begin to buy it.

But the great thing is having bought a stock and having got fairly away from the purchase price, not to be in too great a hurry about selling, provided the general market is bullish.

In these excerpts and others taken from articles written by Charles H. Dow in about the year 1900, in sensible thinking regarding human nature, and in the correlation of these factors with my market studies, lies the foundation for the procedure that I believe will result in greater gains than any other for the average investor.

When the work of Dow has been studied, it is difficult to believe that over the years the public reduced the concepts that he originally expressed into a "system" of reading the averages.

The Dow theory interpretations and improvements as rendered by Hamilton and Rhea over the years were well accepted by the public; however, as time went on their work was narrowed down to a game of chance, or a "system," as layer after layer of emotional and speculative opinions from the nation's analysts and financial writers covered up its original intents and purposes. In the stock market, as in gambling, the human equation reduces most sys-

tems to worthlessness. In 95% of all cases the trader or investor doesn't fully control his own decisions, and the ultimate result is disaster.

As this is being written, I would say that today a million or more traders and investors, subconsciously, watch the averages and their points of resistance as they develop. In effect, what they are doing is making a "system" or "crutch" for their own emotional trading decisions out of the Dow theory concepts as published by Hamilton and Rhea in the era from 1903 to 1939.

When, as since the 1949 lows, all the way up, the averages violated former intermediate lows (or resistance points) the trading public became emotional and was quick to call it a new bear market. In June, 1951, in September, 1953, in June, 1956, in October, 1956, in February, 1957, in October, 1957, and in March, 1960 the speculative or gambling element in the stock market became bearish and emotional as both the Industrial and the Rail Averages broke their former lows and the "system" flashed what was a bear market signal under their interpretations.

In each instance, the emotionalism among the speculative crowd ran its course, the technical background of the market became bullish again, and when this element was on the sidelines, the bull market resumed upward as the dormant primary bull trend reasserted itself.

By now you have observed that my New Dow Theory involves a broad, balanced manner of thinking about the market and your own self. It is a far cry from the narrow "system" that places a complete reliance upon what the averages do. Yes, we who study the New Dow Theory watch the averages. But along with any such observations we realize and understand that the market is composed of people, all types of people, and that all people are born emotional.

We accept the fact that human nature will influence market decisions and will rule strongly in most cases in that the thoughts and impulses of the conscious mind flow freely to the subconscious and to the emotions, and back again. Many market decisions, hunches, and impulses—I would say the vast majority, perhaps 95%—have their origin in the subconscious or the emotional system, and for this reason, often we really do not know why we do the things we do.

In talking to great numbers of traders and investors, I have found that a high percentage invariably will buy or hold on to stocks at the top as a result of over-confidence or greed, and sell and hold on to cash at the bottom because of their fears. That is why so few of the many traders and investors that you and I know have only relatively small profits in their over-all stock position and probably have a loss, even though history's greatest bull market has been underway since 1949.

My common-sense procedure for maximum profits in stocks

If you are willing to agree that we as investors are highly sensitive and emotional human beings, that we are living in an era of fear and emotional unrest, that with modern weapons of war and rapidly changing economic conditions we all have a good measure of insecurity, then you may ask, *"What is the safest road to profits in the stock market under these conditions?"*

My answer to that question is, *"Your own well-balanced thinking, study, and research will finally show you, and only you, the pathway to profits in stocks."*

Charles H. Dow tried to show his readers the way to market success under the conditions that prevailed at the turn of the century. Hamilton and Rhea tried to adapt Dow's principles to the investment situation of their day. And I am giving you the benefit of my research, and am doing what I can to give investors a New Dow Theory that may be applied with more success to our present environment.

As you are observing, I place a heavy emphasis upon the importance of understanding human nature in the stock market. A lasting success in stocks cannot be built unless you understand that the market is made up of people. Thus, the key to profits lies in understanding them and yourself.

Most people have faults. From early childhood they have been taught and trained to cover up those faults. For most of us, this has been such a long and deep-rooted process over the years that consciously we hardly know anymore what our basic troubles are. We automatically do and say things all the time to reassure our fundamental weaknesses. Therefore, the gambler adopts a "system" to strengthen a deep-seated psychological disturbance that he

had in his early childhood—emotional difficulties that he may not even remember consciously.

The greatest pitfall in the path to success in the market is our own emotional thinking. You might question this. But think along these lines for just a moment. If you had purchased a good diversified list of growth stocks in 1949, and held them patiently all the way up through 1960, you would have made a fortune. Why didn't you do it? The opportunity was there for everyone. My observations indicate that 95% of all investors have only their *negative* emotions to blame.

Here is a point that I wish to make clear. I did not say that they have only *themselves* to blame. I said—their *negative* emotions. You cannot blame yourself for the damage that was done or for what happened to your emotional patterns in your early childhood. You were not responsible for the *fears, anxieties, jealousies, worries, horrors, greediness, rejections, guilt feelings,* and other *negative* emotions that you were subjected to as a child. Yet, as an adult, those same emotional patterns stay with you and influence you unless you understand the problems involved and take steps to correct them.

If, as an investor or trader in stocks, you find yourself relying upon a "system" as many gamblers do, you may find that you are using such a system as a cover-up for some deeper emotional disturbances. It may be highly profitable in the long run to seek the expert guidance of a physician trained in that field if you are unable to overcome the difficulty through your own efforts in study, reading, and research.

Wm. P. Hamilton understood investors and the psychological problems involved. Realizing that the Dow Theory was being used by many people with emotional attitudes, he said, *"Let us keep in mind that Dow's theory is not a system devised for beating a speculative game, an infallible method of playing the market. We have all heard that when the neophyte meddles with the magician's wand he is apt to raise the devil."*

Since there are well over 12½ million people in the market today as compared to about 6 million in 1949, the stock market is filled with peoples' emotional feelings and is highly unpredictable in its minor and intermediate swings.

Therefore, now more than ever before, the swings in the market

may be related directly with mass psychology, or the sum total of all the individual emotional attitudes in the marketplace. I have shown in the preceding chapter why in-and-out trading is generally emotional, and is, for that reason, ill-logical and unprofitable.

Thus, the most common-sense and most logical way to profit in the stock market is by acquiring a well-balanced, unemotional manner of thinking in regard to the market. I believe that you will find, as I have found, that *the key to profits lies in riding a primary bull trend, all the way up from its low to its high, in a well-diversified position in growth stocks.*

May I suggest that you re-read and study Chapter VII, entitled DOW'S PRIMARY TREND—BUILDER OF PROFITS, for in all my years of research I never have found a more helpful and truthful market principle. Then, you will see how all the other chapters of this book fit into this picture of determining when to buy, hold, and sell.

Charles H. Dow discovered for us that the market moves in trends. Time and experience have proven to us that only the long-term primary trends are reliable enough to base investment decisions upon. For this reason, beginning in 1949, I advised holding a fully-invested position in diversified growth selections in harmony with the primary bull trend which was starting upward at that time.

Each week during the past eleven years (1949 to 1960) I have illustrated in the service the common-sense investment procedure of riding the long primary bull market trend, all the way up in a well-diversified and balanced position. All factors considered, my research studies show that this is the only sensible investment procedure available to the average investor today. It will do more to help you to build maximum profits during the course of a prolonged primary bull market than any other that I know of.

Back in 1949, when my technical and Dow theory studies as described in the first fourteen chapters of this book, plus my psychological observations as discussed in chapters fifteen through eighteen, indicated to me that a new primary bull market was beginning, I set up two model accounts in the service as shown on the following page.

Thus No. 1 Model Investment Account was composed of divers-

The two model accounts below were set up in 1949, with a working capital of $50,000 each, in an effort to illustrate what we believe to be the most profitable method to invest in stocks. Our theory is that when a major bull market is beginning, as in 1949, one should pick a diversified group of dividend-paying and growth stocks, and then stay with that group for the duration of the major bull market, rather than try to trade, catch the swings, improve position, or stay on the sidelines in an attempt to outguess the major uptrend as it backs and fills. Not all stocks held, under this procedure, will stage advances or move up at the same time, but the majority eventually should produce handsome capital gains and income, and these should more than make up for any laggards.

A large number of stocks shown in our model accounts have been held patiently since 1949, under this procedure. As the major bull market progresses, dividends are re-invested on reactions, stock-splits, spin-offs, stock-dividends, and rights are accounted for, and in recent years a few additional purchases were made on a conservative margin which accounts for any small debit balances shown. The results of this over-all procedure can be seen below, which, in my opinion, far surpass the results that many an average trader or short-term investor can show since 1949; and represents, under my studies, one of the safest and most profitable procedures for most investors seeking long-term capital gains and income from stocks.

NO. 1 MODEL INVESTMENT ACCOUNT

400 Anaconda Co.		750 Southern Pacific	
800 Bethlehem Steel		220 Std. Oil Co., Calif.	
* 300 Chrysler	.25	800 Studebaker-Packard	
150 Consolidated Edison		208 Texaco	
* 100 DuPont	1.50	* 308 U.S. Rubber	.55
400 General Electric		500 U.S. Steel	
471 General Motors		400 Westinghouse Elec.	
300 Johns-Manville		1,200 Zenith	

Market value of stocks currently held in account		$433,500.00
Cash bal. on May 14	$13,706.99 debit	
Dividends from 5/16/60 to 5/20/60	394.40	
New cash bal.		13,312.59 debit
Total value of account		420,187.41
Original investment		50,010.87
Indicated gain (Profits and reinvested divs. since 6/27/49)		370,176.54

NO. 2 MODEL SPECULATIVE ACCOUNT

400 Admiral Corp.		1,000 Jupiter Oils	
200 U.S. Air Cond.		300 Studebaker-Packard	
600 Am. Mach. & Metals		1,000 Sparton Corp.	
200 Am. Water Works		600 Symington-Wayne	
1,000 Avco Mfg.		200 Mission Development	
204 Budd Co.		* 762 Magnavox	.25
205 Champlin Oil & Ref.		220 Motorola	
371 Colo. Fuel & Iron		630 American Motors	
900 Curtis Publishing		232 Philco	
400 Decca Records		255 Radio Corp.	
100 Detroit Edison		625 Cons. Elect. Ind. Corp.	
2,000 Elec. & Musical Ind.		312 St. Regis Paper	
321 Emerson Radio		200 Southern Co.	
100 Eversharp		990 Spiegel, Inc.	
100 General Finance		200 Tri-Continental	
400 Gen. Instrument Corp.		100 Twent. Cent.-Fox	
1,146 Hupp Corp.		120 Stan. Warner Corp.	
200 Gen. Public Util.		120 Warner Pictures	

Market value of stocks currently held in account		$389,900.00
Cash bal. on May 14	$20,951.72 debit	
Dividends from 5/16/60 to 5/20/60	190.50	
New cash bal.		20,761.22 debit
Total value of account		369,138.78
Original investment		50,002.73
Indicated gain (Profits and reinvested divs. since 9/26/49)		319,136.05

* Ex. Div.

The above accounts are presented as working examples for our studies and research in investment procedure and portfolio management. Stock selections, investment positions, and market opinions are based on information believed reliable, but are not guaranteed, and are given with the understanding that subscribers take full responsibility for their results obtained directly or indirectly therefrom.

(Issued, May 21, 1960)

Fig. 12.

ified investment-type growth selections at a total theoretical original cost of $50,010.87 while the No. 2 Model Speculative Account carried diversified speculative-type growth situations at an original theoretical cost of $50,002.73.

Once I had attractive profits in these accounts, I added a few more stocks on margin from time to time, but the margin maintained was heavy and was generally 90% or higher at all times. Stocks were selected on the basis of growth, earnings, dividends, and how they might help to establish a well-rounded and diversified position for the accounts as a whole.

On the theory that trading was 95% emotional and that it would either reduce profits or show losses in the end, there has been very little switching in either model account. The majority of issues held were purchased originally in 1949. Of course, there have been a great many splits, spin-offs, stock dividends, a few reverse splits and several mergers. Dividends were left to accumulate, to make additional purchases from time to time, or to apply on debit balances in recent years.

I have always believed that, whenever possible, it would be highly profitable to reinvest dividends on reactions during a primary bull market. This serves the purpose of compounding dividends over the long pull and, of course, gives the benefits of capital appreciation as stocks move upward.

Another factor which is extremely important to the long-term investor who rides a long primary bull trend is the increase in dividends and the increase in the dividend yield on the original investment as a prolonged bull market progresses. For example, in the No. 1 Model Investment Account the original capital was $50,010.87 and the dividend yield on the stocks purchased back in 1949 for this amount of starting capital was 6.2%. However, as prosperity and the bull market progressed, dividends were increased, many of our original holdings were split several times, and there were stock dividends, spin-offs, and rights. Thus, by 1960, the original beginning capital of eleven years ago had recorded an increase in dividends each year, and at this time was yielding approximately 28% in dividends per year. In other words by, 1960 our original $50,010.87 was producing annual dividends of roughly $14,000 a year and this dividend trend was still climbing as this book went to press.

For this reason, we must not close our eyes to the great financial gains that come simply from the increase of dividends that will take place in a well-diversified position during the course of a primary bull market, and the re-investment of these dividends on reactions all the way up, not to mention the long-term capital appreciation that comes from many of the stocks so held.

In almost every case that I have ever known, the great wealth created by investors in the stock market has been accomplished over a period of many years. Fabulous profits have come to people who, as Dow said, have seen a primary bull market beginning, who then invested in a large amount of diversified growth issues of known value, and who held on to that position as the primary bull market blossomed forth.

The inexperienced, or the emotionally immature, investor seldom reaps the great profits to be had in the stock market. He is confronted with what he reads by various financial writers or the services that advocate in-and-out trading, and only after a good many years of serious study and self-analysis is he able to get on the road to success.

Since 1949, I have received thousands of letters that questioned, or were critical of, the long-term investment procedure illustrated each week in the service by means of my two model accounts. Often during a severe "shake-out" my readers were positive that I was doing the wrong thing in holding on. It is true that, temporarily, the accounts suffered with each minor or intermediate decline which interrupted the long primary bull trend. However, as the table in Fig. 13 will show, the gains in each model account rose to vigorous new highs as the Industrial Average resumed its primary bull trend.

Allow me to emphasize that the more right you are in analysing the primary bull trend and if you stay with your predictions in a fully-invested position, the greater your profits will grow during the final stages of a bull market.

Observe closely how the gains in both model accounts zoomed skyward in the late years of our bull market when compared to our original $50,000 of capital invested. You will see that the percentage increase is truly fabulous as a reward for doing no more

than sitting tight (or doing no trading) as long as our New Dow Theory says that the primary bull trend is still in force.

In my efforts to help the approximately 50,000 investors, who have learned to know, or know of me, to profit in the great bull market that has been underway for the past 11 years I have stressed the reasons why this huge upsurge in stocks was expected all the

Date	*Close 30-D.J. Ind.*	*Gains in No. 1 Account*	*Gains in No. 2 Account*
Oct. 28, 1949	190.36	$ 7,818.13	$ 1,852.27
Apr. 8, 1950	212.55	11,211.67	8,489.72
Oct. 21, 1950	230.88	21,940.30	15,495.65
Mar. 24, 1951	248.14	34,097.46	20,399.98
Oct. 27, 1951	258.53	35,549.74	23,206.69
Mar. 29, 1952	269.00	42,806.17	35,620.32
Oct. 25, 1952	265.46	48,502.95	37,598.25
May 29, 1953	272.28	55,325.65	44,122.77
Oct. 23, 1953	275.34	56,070.00	40,526.31
Jan. 29, 1954	292.39	61,944.59	43,819.69
May 1, 1954	319.33	73,799.59	46,736.59
Nov. 12, 1954	377.10	102,102.09	67,091.59
Feb. 19, 1955	411.63	130,366.58	104,410.98
Aug. 19, 1955	453.57	160,138.21	108,417.91
Feb. 11, 1956	467.66	171,152.52	111,093.82
June 9, 1956	475.29	174,040.27	112,205.30
Oct. 12, 1956	490.19	180,048.27	106,519.45
Apr. 20, 1957	488.03	182,101.47	111,228.25
July 6, 1957	516.89	202,219.47	117,439.90
Oct. 26, 1957	435.15	160,707.07	87,018.71
Mar. 29, 1958	448.61	169,253.14	89,469.62
Aug. 2, 1958	505.43	209,152.14	122,104.09
Dec. 6, 1958	556.75	279,171.54	186,062.58
Jan. 3, 1959	587.59	312,071.54	207,810.08
Apr. 10, 1959	605.97	351,115.94	244,553.70
Nov. 20, 1959	645.46	414,091.34	303,119.51
Feb. 12, 1960	622.23	393,579.54	307,075.40
May 19, 1960	624.68	370,176.54	319,136.05

Fig. 13

way up and why the most logical procedure for maximum gains was simply to remain fully invested in a well-diversified growth position.

Out of this estimated 500,000 investors, there have been over 10,000 who have been fairly regular subscribers to the service from year to year, and I would say that another 15,000 follow the serv-

ice by reading the other fellow's copy, by reading my advertising literature, or by sending for repeated 4-week trials to the service. This total of 25,000 interested investors (approximately 5% of my estimated grand total of half a million) are trying to study the market and probably are attempting to be logical and unemotional in their investment behavior.

As primary bull and bear markets come and go, new and old investors come and go, there is a continual process of becoming experienced, seasoned, and emotionally mature among investors, but over a long 10-to-15 year period you will find that about 2% of all do very well in the market, another 3% are in a class that does fairly well over the years, and the remaining 95% are learning to make unemotional investment decisions, and while being educated in the ways of the marketplace are most likely from time to time to pay for their education by selling too soon or with losses which vary in size and degree. Out of this group, however, comes the upper profitable 5% as time moves along. This small minority forms the backbone of the investment business. Eventually to become one of them, you earn that right through your own study, research, reading, and your ability to follow a profitable procedure.

Another most important success consideration lies, of course, in the stocks which you select and buy at the early beginning of a new primary bull market, or during sizeable intermediate reactions on the way up.

No two bull markets are ever exactly the same. As the nation grows, or falters, the economic and political situations change. New research, new discoveries blossom forth. Prosperity is followed by recessions or depressions just as night follows day. With each new generation comes an entirely new set of economic and political considerations.

About the only thing that doesn't change very much with time is human nature. From what I have read and studied about people living as far back as 5,000 years ago, I don't think that there has been a significant change in the way people think and feel. I believe that people were just as intelligent then, as now. And, I doubt that there will be a noticeable change in the human element during the next 5,000 years or longer.

Economically and politically, however, the changes have been and always will be far-reaching. In these areas, nothing is more

certain than change itself, unless it be death. In selecting stocks, changing conditions over the years must receive prime consideration. The wisdom of your choices is a stepping-stone to your success.

During the early years of the fabulous bull market which began in mid-1949, it was not too difficult to select some of the great growth issues that were to soar upwards in the next decade.

For example, to have selected and to have held such growth stocks as *General Electric, General Motors, Dow Chemical, Eastman Kodak, Texaco, Std. Oil of California, U.S. Steel, Bethlehem Steel, Tri-Continental Corp., International Business Machines, Southern Pacific, Zenith Radio, Motorola, International Nickel, Westinghouse Electric, duPont, American Machine & Metals, Radio Corp. of America, U. S. Rubber, Magnavox, Detroit Edison, Decca Records, Spiegel, Inc., and Consolidated Edison of New York,* all the way up since 1949, would not have taken a great deal of courage or foresight. Sensational profits have developed in these issues since all have had a fairly obvious and consistent record of earnings and growth over the past eleven years.

I have found that a great many of my subscribers to the service have learned from the technical and Dow theory tools discussed in the first 14 chapters of this book that the primary trend of the current market has been up since 1949, and many have held stocks patiently all the way up. A high percentage of the stocks mentioned in the foregoing paragraph have advanced from 800% to 1,500% since their 1949 lows, not to mention their dividends, and a good many of these have been carried in the two model accounts illustrated in the service over the past eleven years.

No one is perfect. Don't expect yourself to be. For this reason, I have always advised holding a well-diversified list of growth stocks in harmony with a primary bull market. I would rather see a man with 10 shares each of 50 stocks than 1,000 shares each of only 5 stocks. In other words, don't put all your eggs into one basket, no matter how attractive the situation might be. Select a diversified, well-rounded list of growth issues. Buy only when prices are low, and when your studies say that a higher market is coming. In the service, the No. 1 Model Investment Account had 16 different issues, and the No. 2 Model Speculative Account had 36 different stocks. All were bought early in the bull market,

and held patiently, all the way up. Now here is the reason why.

There is an investment principle in which we expect a few issues within a diversified growth position to soar into outstandingly high territory as a primary bull market expands. This is something that very few people fully realize, but it is brought clearly into focus when we see the experiences of investors who have built handsome profits.

An attorney in Cleveland, Ohio, and his two sisters inherited about $60,000 apiece when their father died in 1950. When the estate was settled the three of them had a meeting to decide how the money might best be invested.

Shortly before this meeting, the attorney subscribed to about five or six services, including my own, and a list of dividend-paying growth issues was made up for consideration. Each bought a diversified group of stocks from this list.

Since then, usually once or twice a year, I have received a long-distance call from this attorney. Almost invariably these calls have come in when the market was having a shake-out and people were fearful. Regardless of all I could say to encourage him to hold on to his stocks, when fear overtook him he sold. However, his two sisters who weren't reading all the services and financial columns simply held on to their stocks as planned originally.

The last time the Cleveland attorney called on a dip this year in 1960, he said, *"I am becoming more and more disgusted and frustrated. Ten years ago my sisters and I started out with the same amount of capital. Today the total value of their stocks in each of their accounts is worth over $400,000 apiece. They refuse to sell anything. They have done nothing but to hold on, while I have tried to beat the market, and have traded. Right now, my account is in worse shape than ever and is worth less than $30,000 as a result of ten years of one mistake after another. Actually, I have developed a serious inferiority complex about this and seldom visit my sisters to talk about the market anymore."*

After listening to how badly this long-time subscriber felt, I said to him, *"You should feel that you helped them get on the right track in the first place, 10 years ago. Without your advice they might not have done so well."*

He replied, *"That's true. But what makes me feel so badly is that I once had the same stocks that are now making them wealthy.*

My first mistake was that I got scared when the Korean War began in 1950 and sold out, and I've been in-and-out the same way many times since then. My profits always seem to get eaten up by my losses."

I was curious to know, of course, what stocks the sisters had done so well on when I said, *"I would be interested to know some of the reasons for your sisters' success, which stocks you selected for their consideration 10 years ago, especially those which have made all this profit for them. How did these nice profits develop over the years?"*

The voice on the other end of the line hesitated for a few seconds, and then he said, *"Well, the truth of the matter is that none of us would have believed that some of the stocks we discussed back there would go up so high as they are today. Not all, but just a few have gone into outer space, you might say. For example, their* Zenith Radio *and their* Motorola *have gone up well over 20 times what they originally paid for them. Their* General Electric *is up about 10 times. And their* Bethlehem Steel *is worth now about 6 times what it cost them. Some of their stocks aren't up too much, and they may have a slight loss in one or two, but they have these enormous profits in these others that I mentioned. That is why their position has turned out to be so profitable."*

Whether the sisters realized it or not, the fact remains that they adhered to the principle of *"letting their profits run"* during a primary bull market. The brother apparently fell victim to his own inner-most emotional feelings in happily taking a small profit when he had one, and fearfully selling out at a loss that was greater when his fears got the best of him.

One lesson to be learned from this case is that *within any well-diversified growth position assumed early in a primary bull market, the odds favor the probability that a few issues so held will eventually score amazing gains.* And that is where the great profits are made in the stock market as a general rule.

In any group of diversified holdings, it is wrong to think yourself to be perfect and to expect all the stocks you hold to go up. Some people are not satisfied unless all their stocks go up every day. The market just doesn't work that way, and never will. Allow me to repeat that Dow believed that an investor *"who will study values and market conditions and then exercise patience*

enough for six men will be likely to make money in stocks." In other words, even if you have bought good growth issues in an attractive low area, the odds are excellent that the market will try your patience time and time again as the primary bull trend progresses upward.

Before I close this chapter, let me emphasize this important common-sense market principle for you to remember. *In any carefully selected and diversified group of growth stocks, held patiently in harmony with a primary bull market, the chances are good that some of the growth issues so held will record sensational advances during the course of the market's major uptrend. Some unbelievably great profits are likely in a few issues, but at the start we do not know which ones will be the most profitable movers. Therefore, early in a primary bull market, do not let a few points profit tempt you. Let profits run. So often, some of the stocks sold early in a bull market go on to establish fantastic gains later on. The market today is full of investors and would-be traders who have violated this principle and who have traded themselves out of the truly great profits to be had out of many stocks since 1949.* Chapter XX, in which I will give a good many case histories of subscribers to the service, will shed additional light on this principle for maximum profits.

Chapter XIX

HOW YOU CAN PROFIT FROM A DEPRESSION

"Once the 3rd phase of the great bull market underway is completed, the next major trend in stocks and business will be downward."

In this chapter we are going to take a careful and completely unemotional look into the economic future, especially where investors, businessmen, and property owners are concerned.

I believe that this is the most important study an investor can make at this particular time in our financial history. Too many of us have been lulled into sleepy complacency by eleven years of rising markets and rosy optimism interrupted only by a few temporary setbacks.

As each temporary decline has occurred since 1949, a resumption of the primary bull market has convinced more and more people that we can have no serious depression in this "government-supported" economy. Today, there are actually millions of people who are convinced that a permanently built-in inflation is with us. They say that each time a recession occurs, in future years, the government will revert to deficit financing to bolster employment; and that's inflationary.

In Chapter XV, we discussed mass psychology and gave examples of the illusions of the crowd during boom periods, that finally led to economic disaster. Today, the unusually good profits in business, high employment at the highest wages in the world, and the belief that our government will never allow another major depression have created a false illusion among the public that may well go down in history as the greatest of them all.

Therefore, just when things seem at their very best, as now in 1960, and are getting better, it pays most to check up on ourselves, our stocks, bonds, and real estate. We will now lift the lid off the economic box, as it were, and see if everything we find there is to our liking.

In doing this, I don't expect to become popular. As outlined in previous chapters, over 12½ million people own stocks, and probably three times that many more own bonds and real estate today. They all hope for continuing prosperity and want to feel that they are right and secure in their positions. Several million more own their own businesses. About 95% of all these people are influenced by their emotions in their investment thinking, and, of course, therein lies the source of some major troubles to come in the years ahead.

Nobody likes to hear that one of these days good times will come to an end. Nevertheless, I feel that, if at this point in time I can wake up a few investors who have visions of an everlasting prosperity, I shall be doing them the greatest service possible. Maybe I can help a few to side-step the great economic pitfalls that lie hidden in our economy.

Then too, I will attempt in this chapter to show you how and why you might lay the groundwork for the next bull market, a possible new fortune for you, or your own future financial security.

The problem, of course, is first to get out of stocks, bonds, real estate, and business somewhere near the top where you can get the best prices. Then, second, to stay in a cash or liquid position so that you will be prepared to take advantage of the opportunities that every major depression has always offered. And, third, to get back into the right stocks, bonds, real estate, or business when prices are low in the midst of a depression.

In 1959, I paid a short routine visit to the fascinating west-coast city of San Francisco, and while calling on subscribers and other investors in various brokers' offices along Montgomery Street, I was invited by the manager of a leading brokerage firm to make a talk the next day to a group of approximately 100 people who would be interested in hearing what I had to say.

The next day I stood before an over-flow audience composed of bankers, brokers, analysts, businessmen, and investors, both large

and small, from San Francisco and several neighboring towns. I had planned a talk lasting about an hour covering some of the things discussed in this book.

The speech went fine. I had touched upon the importance of riding the primary bull trend all the way up, the bull market's three phases, the yield cycle, the short interest to daily volume ratio, my 50% concept, my odd-lot studies, and the 200-day investment line. Also, I discussed my observations in both individual and mass psychology in a manner similar to that expressed in the foregoing chapters.

My listeners seemed interested all the way through, but it was not until I mentioned the possibility of a bull market top and a major depression ahead that the crowd's curiosities began to stir. Apparently I had touched upon something there that was emotional in nature and that many wanted to know more about. Thus, when my talk was finished, nobody wanted to go home, and in the discussion that followed some interesting questions began to come up. Here are some of the questions asked by investors in this San Francisco meeting and my answers to them.

Q. "Mr. Schaefer, you discussed the three phases that have developed in this bull market since 1949. How much longer do you feel that this third and final phase now underway might last?"

A. "There is no way to tell precisely when the phases of a bull or bear market are to begin or to end. At this point in 1959, about all we can do is to observe the size and tendencies of the first two completed phases of this bull market since 1949. They have lasted approximately four years each. The second phase went about twice as far in extent. I would guess that the top of the third phase will come either in 1960 or in early 1961, and that in extent, it will eventually be much greater than the second phase."

Q. "If the third phase began at the October 22, 1957 lows, then four years would take it to October, 1961. Do you think, then, that the bull market will move higher that long?"

A. "I don't know, of course, but when we consider the size and duration of this greatest-of-all primary bull markets underway since 1949, I feel that such a long bull market is entitled to quite a sizeable speculative top. We had a short-lived speculative flurry this spring, (1959), led mainly by the televisions and the electronics groups, but I doubt that this speculative wave was big

enough to top off the major bull market. I am inclined to think that we will get another even larger one in 1960, or possibly in early 1961. If so, then by October, 1961 this bull market might well be over, and a new primary bear market will be underway."

Q. "Mr. Schaefer, from the various things you have said so far, I get the impression that you expect to see quite some speculation before we see the final top. Is that true?"

A. "Yes. Up to now the public has been fairly conservative in its buying. My odd-lot studies and observations throughout the country show that the public began to come into this third phase early this year, (1959). I now look for public enthusiasm to build up slowly and irregularly until the market finally gets overbought and highly speculative. Once a speculative climax occurs, I feel that then the curtain will crash down on this bull market. Wm. P. Hamilton once wrote that a smash cannot be brought about in a major bull market unless an edifice of speculation has been constructed sufficiently high to make a noise when it topples over."

Q. "Do you think, Mr. Schaefer, that today's managed economy will influence the top area of this bull market? By that I mean, won't the government do things to discourage speculation?"

A. "Yes, I think it is reasonable to assume that government officials will make moves to control the boom in stocks to some extent. That has been the pattern all the way up. The top of the bull market may not be rampantly speculative for that reason. However, the government wants prosperity. Officials today are concerned about tax receipts and the lagging growth trend for the country as compared to Russia. There are entirely too many unemployed around, and this is unsatisfactory in that it is likely to bring about some unfavorable election results in 1960 that may be upsetting to the plans of the economy managers. In fact, a depression and a radical Congress are things that our managers in Washington do not want and will try to avoid. For this reason, I believe that more and more speculation will be tolerated as prosperity continues. If speculation is discouraged too much, people are likely to think that something may be wrong with the economy, and that might bring on uncertainty and a depression sooner than it would otherwise. The scales of mass psychology are easily tipped one way or the other by what our economy managers think and do."

Q. A hand went up near the back of the room, and as I nodded, this investor spoke up and said, *"This country has had inflation since 1933. The dollar has become worth less and less. Each time there is the slightest recession the government begins priming the pump. More inflation results. This has been going on for 26 years now. Why do you think it will stop, and how can we get a major depression under such inflationary conditions?"*

A. I wasn't surprised to hear someone bring up that question. It had been asked of me hundreds of times by investors from coast to coast. The answer was clear in my mind when I replied, *"There has been a long inflationary trend in this country for 75 years or longer. Our fathers and grand-fathers told about how prices of things were really low in their day. And, we know that following each major war there has always been a long period of inflation, eventually to be followed by a depression. The economic growth of this nation has been built upon alternate periods of prosperity and depression. I doubt if that will change very much in the future. The reason we can look for a depression in the years ahead is simply because we have had a major war, and a good many years of prosperity. In due time, a depression has always come as an aftermath of the war scarcities, higher prices, and the over-production of just about everything during the inflation that follows a major war. Finally, the point is reached when the whole world overproduces, and regardless of pump priming and deficit spending, prices start down, deflation begins, and a major depression begins to bear down upon us."*

Q. "Isn't it true, Mr. Schaefer, that each succeeding period of inflation in this country has always sent prices higher than the one before?"

A. "Yes, that is true."

Q. A broker sitting in the front row of seats raised his hand and asked, *"You mention over-production as a reason for a depression ahead, Mr. Schaefer. Would you elaborate a little on the nation's production ability to give us a better view of why you regard that as a potentially dangerous situation?"*

A. "Well, I feel that our strongest inflation stopper will be overproduction. With the cost of labor so high in this country, there is a determined trend toward automation. In a few years, I am inclined to feel that by means of automation industry will be able to produce at a rate that is almost unbelievable today. When you

add to that the amount of goods that foreign countries can produce with low-cost labor, and can ship into this nation, my guess would be that in another two years there will be a glut of almost everything.

Q. "How soon do you think that inflation in this country will be stopped?"

A. Probably in 1960, and not later than 1961."

Q. "Will a market crash and major depression follow then?"

A. "I think so. As I said earlier, it's almost impossible, however, to call the exact top because of mass psychology. But, I feel sure that the stock market will begin to discount the end of inflation well ahead of time. My 3-phase studies, the short interest to daily volume ratio, my odd-lot interpretations, and my yield cycle all seem to point to a final top in the stock market . . . or, let us say for the majority of stocks . . . sometime between the late months of 1960 and early 1961. This final top area should be followed by a sharp break and then a major bear market. About a year later, I expect a severe depression in business."

Q. A leading San Francisco investment banker then spoke up from the far corner of the room and said, *"Mr. Schaefer, I would like to hear you say how high you think this stock market boom will go and how severe you believe the depression to follow will be. After the final peak, how far down do you look for the Industrial Average to go, and about what year might we expect the bottom?"*

A. "Assuming that our 3rd-phase top area comes in late 1960, or perhaps in early 1961, I would say that the prediction I made in my 8-page ads in October, 1957, is still good. There, at about the 425 level I made a guess that the Industrial Average finally would top out its 3rd-phase near the 767 level. I would say the peak will come 50 points either way of that point. That puts the top in the 717 to 817 area. After that, we can logically expect a 3 or 4 year bear market. For just a rough guess, the bottom of this next bear market might well come in about 1964. I have no way of telling how long a primary bear market might last, but history shows that most have progressed downward irregularly from 3 to 5 years. There is no sure method of determining how low the Industrial Average might go, but following à major bull market as this one, we can expect a rather severe bear market. How much the government can do to stop a major bear market, as the one coming up,

remains a big question mark. Personally, I don't believe that too much can or will be done, and if that is true, then the Industrial Average could go all the way down to well below the 200 level, or even the 150 level, before the expected 3-or-4-year bear market ahead runs its full course in correcting the bull market in force since 1949."

Q. This same investment banker quickly stood up again, and as I motioned for him to go ahead, he said, *"That is very interesting to all of us I am sure, and especially to me, Mr. Schaefer, in that I have been thinking along almost the same identical lines recently. Since most of us here probably are interested in your weekly market letter, would you care to tell us what are you going to advise your subscribers to do? It seems to me that what we do marketwise in the next several years is going to be very important to us all."*

A. "Well, to start with, I think we should all realize that the tops are always harder to call than the bottoms. I would guess that up to 15 million people will be involved in the stock market when it hits its final top. Mass psychology is the most difficult thing possible to predict. No one knows what the sum total of that many peoples' feelings and emotions will add up to. If the psychology of the crowd runs rampant, uncontrolled, and today's glamour issues get out of hand, the Industrial Average could move up to 900 or better under such highly speculative conditions.

However, I believe it is safe to assume that our government officials and other people in high places will exert a controlling influence on the market, and, for this reason, I plan to turn bearish and advise selling some months before the top. I would rather play it safe and put down an anchor than take the chance of our financial boat going over the dam.

Right now, I would say that when the Industrial Average moves into my expected 717 to 817 area, begin to take profits. Sell on strength. When stocks held in a well-diversified position zoom up into the clouds, one by one—then sell them, one by one. Move to the sidelines. I would sell all my stocks, bonds, and real estate held for investment.

Each investor must figure out where he is going to do his own selling. It's as Robert Rhea once said, 'The Dow theory can help only up to a certain point. After that, each investor must kill his

own snakes.' Once you begin to sell, then be satisfied, and salt away your money. Put it away safely, in the lock box. If you must invest it you might buy a few short-term government bonds or notes. Stay in as liquid a position as possible, and hope that when the next bear market begins you will be out of all stocks, bonds, and real estate.

Q. At this point a young customer's man asked, *"Do you mean to sell everything? Even the best of bonds and high-grade stocks?"*

A. "Yes."

Q. "Won't the government do something to stop deflation once it becomes as serious as you think it might?"

A. "If you will think back, since about 1943 the government has tried in many ways to stop inflation, but it came anyway. My guess would be that deflation, once it begins, will come regardless of what Washington does in its attempts to stop it.

Q. Again the young customer's man took the floor and said, *"If everybody sold all their stocks and bonds, as you say, and held nothing but cash and government bonds, our business would soon become a dismal thing. It just doesn't seem possible to me that many investors would be willing to sell out, or that such a procedure is practical for all investors."*

A. "If I were you, as a broker, I would not worry about it in the least. For every seller there must be a buyer to complete the transaction. You are right when you say that it is not possible or practical for everyone. Human nature is against it. When the time comes to sell this bull market, as in 1929, the public will be bullish and will be in the stock market buying the heaviest. In 95% of the cases of inexperienced investors, you will get a deaf ear turned towards you if you mention selling out, and staying in cash on the sidelines."

Q. "How would you suggest that the stock broker or the investment banker advise an eager public at the top?"

A. It is our responsibility as members of the investment business to keep our customers well informed. The more logical, unemotional, and better informed each man in the business is, the better the job we can do in advising the public. I believe that if you, as a broker, have certain knowledge about the market, your customer is entitled to learn about it too. Then, it's up to him to make his own decisions."

Q. "Mr. Schaefer, I think you are to be congratulated upon the way you have informed the public over the years."

A. "Thank you."

Q. A newspaper reporter in the audience who had been taking notes on the various points mentioned in the talk put down his pad and pen as he said, *"What has been discussed here today has been very interesting. It is easy enough to visualize a possible boom during the election year of 1960 and into 1961, however, I can't believe that a major depression as you suggest is likely to follow. The people of this nation won't stand for it. They have learned to depend upon their government to avoid a depression. Should a depression begin, I think that Congress will start in spending more money, the Federal Reserve Board will ease money conditions; and, we have many new built-in depression resistors in the economy now such as unemployment insurance, farm price supports, social security old-age pensions, bank deposit insurance, and almost a countless number of pension funds among industries. From what you have said, these supporting economic factors will not be strong enough to keep a major depression from coming. Would you discuss this a little more for us?"*

A. "The point of view that you have brought up is, in my opinion, a very important one for all of us to think about. As you have said, the people of this nation expect their government to keep the country from having a depression. Not only that, they are firm in believing that the government is able to do so. Nothing could be farther from the truth. As I see it, the public is laboring under a false illusion. For nearly three decades now the politicians have talked prosperity and what they have done and will do to maintain it. Over the centuries the public has had the tendency to believe the promises and the wishful thinking of our political leaders. That is why, whenever a depression occurs, as a rule the politician in office gets blamed, and a new administration is voted into office.

While I am inclined to think that the new economic factors in our economy and our economy managers may help to cushion a depression somewhat, I doubt that they can do enough to avoid one. There are too many unfavorable things within the economy. For example, taxes are too high. While the government has taken steps to hold up the economy with one hand, it is doing things

with the other hand that will sooner or later destroy prosperity. Because our tax laws have not been changed to give relief to the taxpayer, and tax enforcement is becoming more rigid every year, the average American citizen is more in debt now than ever before, labor has felt the need to make demands upon the employer for more and more money, prices therefore have climbed higher and higher, there has been more speculation in an effort to establish long-term capital gains at a 25% tax rate, and thus a mammoth inflationary boom has developed.

The government itself has done much to add to the burden of the taxpayer. It has encouraged the mass building of homes, social benefits have soared, it has enlarged its huge force of government employees many-fold and the total continues to grow, vast sums of money have been given each year to foreign nations, enormous totals of money are being spent on new buildings and road construction, and so on. This all must be paid by the unhappy taxpayer. Our national, state, and local governments are adding more and more to the already heavy load of the American taxpayer. I look for the 'last straw' on this load or the 'breaking point' to come in 1962. By then, however, the damage will already have been done. People will realize how serious it has become. A depression will be on, there will be a revolution among the taxpayers of this nation, the necessary reserves to weather a depression will have been paid out in taxes to the government, and some new much-needed tax reform will finally be legislated to correct the situation. It will be 3 or 4 years before we get over the shock. But eventually, the nation will recover, and a new prosperity will begin.

I have already mentioned automation. High taxes, high wages, and competition from foreign countries currently is speeding up automation. The leaders of industry must produce vast quantities at a much lower cost to stay in business nowadays. This is being done in some industries already. But, within two years I predict that automation will be wide-spread and will bring about a surplus of almost everything. Then prices will begin to slump, losses will be taken by industry and business, unemployment will rise, the working week will be reduced from 40 hours to about 30 hours, and a major depression will be on. Without the tax rev-

enue coming in from the once-prosperous taxpayer to pay for the many things that the government is doing today to support the economy, I don't see how it can do it any longer or how Washington will be able to keep a depression from coming. As I see it, what little comes in will have to be spent largely for relief."

At this point I glanced at my watch and was amazed to see that I had been talking for two and one-half hours. I began to conclude the meeting by emphasizing that, while a depression was due to begin in the year or two ahead, my market studies remained bullish through the summer of 1960, at least, and probably for as long as early 1961 if the market did not become too speculative before then. But just as the meeting was about to adjourn, one more hand went up.

Q. "We want to thank you, Mr. Schaefer, for your informative talk today, and for your straight-forward answers to our questions. Just one more question."

A. "Certainly."

Q. "Your prediction now is that the stock market will have one more sizeable upmove before it reaches its final top and selling area."

A. "Yes."

Q. "What stocks would you buy right here?" (in 1959).

A. "First, I would make sure that my position is a well-diversified one in growth stocks. Then, I would see where it might be improved. Right here, I would want to fill in a well-rounded position with such groups as electronics, science stocks, televisions, space-age, aluminums, steels, chemicals, motors, electrical equipments, coppers, and maybe a few of the better oils and rails.

As for individual stocks, I like Radio Corporation, Magnavox, Litton Industries, Texas Instruments, Zenith Radio, Motorola, General Electric, U. S. Steel, Jones & Laughlin, Dow Chemical, Ford, Anaconda, Reynolds Metals, Std. Oil of California, and Southern Pacific for a rise into late 1960 at least."

"It has been a pleasure talking with all of you. You have been a wonderful audience. Good luck and big profits to you!"

After saying goodby to my many San Francisco friends, I hurried on my way to a luncheon appointment made several days earlier.

WHEN AND HOW A DEPRESSION HITS—WHAT TO DO—YOUR PLAN

I believe it is better to use common sense and to observe some of the things that everybody sees (but refuses to heed) at the top of a typical business and stock market boom, just before a depression hits. Physical statistics of business activity, appearing on all kinds of charts, will be at their tops and pointing higher . . . stock market prices, bank loans, employment, production records, carloadings, and so on. Population growth makes the headlines in such a top area. There are many strikes, and labor seems always to win. Money is tight. Taxes soar. Gross national product establishes new records. Government spending and debt run amok. The public takes off on a gay, what-the-hell, live-it-up spree, going deeply into debt—and you'll notice, in 1960 consumer debt was at its highest in our entire history.

During the final months of a bull market's third and final phase, everybody is bullish and is sure that business is going to be fine for a long time. The thinking of the masses becomes more and more emotional as speculative and glamour issues soar in the stock market. If there is even the slightest hint that trouble is brewing and that the bull market may be nearing its end, the public thinks emotionally and refuses to take it seriously. At the peak, the public is loaded with stocks. It *wants* the market to go higher and higher, every day if possible.

That, very sketchily, is what the final top area of a boom in business and in the stock market looks like. I leave it to you to decide for yourself whether we are or aren't getting close to the breaking point here in 1960.

Now we know that no tree grows to the sky, and that every boom in history has been followed by a depression. This was true even in Biblical times, when Egypt had her seven years of plenty followed by seven lean years of starvation. Joseph's grain storage was a lesson for all mankind to prepare for lean years ahead. Today, however, our economy requires a somewhat different kind of foresight.

When we realize that following World War II we have had an upsurge in the same three major cycles—commodity, real estate, and financial—as we had following World War I, we see that we currently are in the financial cycle which is the last one. Just as

in 1927, 1928, and 1929, the financial cycle is booming now. I would say that 1958, 1959, and 1960 have been boom years for almost anything in the financial field, such as banks, insurance, the stock market, and certain types of real estate such as business property, office buildings, and apartments. Along with this financial boom, credit inflates among the public and industry alike until it reaches the bursting point. Look around you. Almost any large city in the nation is expanding its activities on credit, huge office and apartment buildings are under construction, banks and insurance companies are booming with credit activities, and a big percentage of the people are suddenly becoming investment-minded and are interested in the stock market.

One of the earliest signs of a coming depression, I believe, will be a highly speculative stock market with the public buying with great confidence and refusing to sell. At that point, their *negative* emotions of *exuberance* and *greed* take over. People then become strong-headed, emotionally, and anything you might do or say won't change their minds. Only a crash in the market can do that. And, since the market boom can't go on forever, it must end with just such a crash. Thus, the market finally corrects its own excesses on the upside, just as it does on the downside, but the trouble is that so many people always seem to get hurt.

You might ask, *"How will we know when the best time to sell our stocks, bonds, and real estate is here? Is there any way of recognizing the point where we may be able to get the best prices when we sell?"*

My answer to those questions would be as follows, *"From what you have read so far in this book, it is clear to see that the best time to sell out probably is very near. Individual stocks, however, will make their highs at various times. They won't all record their tops the same day, week, or month. Therefore, in my opinion, each investor must decide for himself where he is satisfied with his profits, and then get out. It is best to get out early, well before the final top, as a general rule.*

As you have found out in your own experience and from reading the preceding chapters, about 95% of all investors are basically emotional in making their market decisions. This vast majority does not do research or even try to apply logic in the true sense of the word. Invariably, their emotional difficulties require sup-

port, and invariably they turn to some system for that support. My studies show that the largest percentage of people turn to the business picture for their market decisions. The next largest group go by the pattern of the averages in that they watch the highs and lows and allow that pattern to influence them. Then there are various smaller systems used for trading purposes which other groups use to base their conclusions on.

Since we have seen the crowd become bearish time after time, all the way up since mid-1949, when their systems turned bearish and fooled them into selling stocks, I think it might be logical to watch for the time when their systems will reverse themselves and fool them on the upside. That's when the masses may turn bullish under their various systems, and be wrong again in buying at the top.

In other words, the time may come in this primary bull market when all the hordes of investors following the improving business picture will turn extremely bullish, and, at the same time, all those millions who follow the averages will suddenly turn rampantly bullish as both the Industrial and the Rail Averages push up into new high territory in unison and on increasingly larger volume. That would create mass enthusiasm.

If, for example, a new high in the Industrial Average is confirmed by a new high in the Rail Average, the old school of Hamilton-Rhea Dow theorists would become very emotional in their bullish excitement in expecting new highs. And, just as they were 'shaken-out' on numerous occasions as the averages violated former lows all the way up since mid-1949, it is entirely possible that they might again succumb to their emotions and to their system by buying at the top should both averages record new bull market highs.

Assuming that business continues to improve and the Industrial Average pushes up to new bull market highs, then new highs for the Rail Average would influence millions of people to turn bullish, regardless of yields, phases, short interest-volume ratios, odd-lot indices, or anything else. Such a psychological buying climax, in my opinion is a distinct possibility at the top 'selling area' of this primary bull market."

Just as William P. Hamilton believed that before a bull market can end, it must become so speculative that it topples over, I am

inclined to feel that this bull market will see its final top area under highly speculative conditions. Each and every investor must decide for himself where he believes his own holdings have reached the point of excessive speculation—and sell out.

Under the speculative conditions which I have described in these pages, I would sell out all stocks, bonds, and real estate. After you have sold, you may, or may not, have to wait a while for the market to record its final top. Prices may well go somewhat higher after *you sell. Mass psychology does not lend itself to an exact measurement.* But I would not concern myself over somewhat higher prices. Let someone else have that last 5% or 10% in additional profits. In doing so, remember that you are also transferring a huge risk to their shoulders. The chances are excellent that the last layer of profits will be wiped out in one or two days when the bull market is ended and topples over into a new primary bear market.

It is a fair guess to say that once the present, greatest-of-all bull markets in history starts downward into a new bear market, it will do so with a crash and all of this will come about on no news whatever. Coming out of a clear sky, the smash is most likely to catch the inexperienced crowd by surprise as history repeats.

To know where to sell thus becomes an important and delicate matter of timing. Subscribers to my weekly service have often heard me say that the time to sell will come when the 3rd phase of this bull market has grown to its full and probably sizeable stature and speculation becomes rampant. For years I have said that when our No. 2 Model Speculative Account (as discussed in Chapter XVIII) begins to show gains that are greater than the gains for our No. 1 Model Investment Account, then speculative buying will outweigh investment buying and that will be the time to begin taking profits.

It is interesting to note that since early 1959 the "spread" or the difference in the amount of gains for each of these accounts has grown smaller and smaller. This indicates that speculation has increased from early 1959 on. Sometime late in 1960, or possibly by early 1961, it is entirely possible that due to this increase in speculation the gains in our No. 2 Model Speculative Account will surpass those of the No. 1 Model Investment Ac-

count, and, if so, that will be an indication that speculation is getting the upper hand and that the "selling area" for the long primary bull market since mid-1949 finally has arrived. At that time, I plan to get out of all the stocks held, all the way up, in these two model accounts, and to hold cash and short-term government bonds in anticipation of the coming depression discussed in this chapter.

Once the stock market turns downward, I fully expect the bond market to turn weak and to follow it down. The 40 Dow-Jones Bonds Average has been in a slow irregular downtrend since 1946, and while I do not anticipate as large a decline percentage-wise in bonds as I do in stocks, I find it difficult to cite any reason why a major depression won't carry bonds down with it too. My guess, therefore, would be that the 40 Dow-Jones Bonds Average will continue their prolonged "bear" market and will smash down to new lows as the stock market goes into it's next bear market.

For this reason, I would get out of all bonds in this area, regardless of how good they may seem to be. Banks, insurance companies, pension funds, investment trusts, and wealthy individuals will be drawing heavily on their reserves by selling bonds should a major depression come as I have predicted. If so, lower prices for bonds will come, and I can visualize a decline in the 40 Dow-Jones Bonds Average to about one-half of what it was in the spring of 1960.

Then, the next sign of a coming depression, as I see it, will be a coast-to-coast slow-up in real estate activity. At first, this coming slow-up will seem mild and only temporary. Builders and the public alike will refuse to believe that the great building boom underway for the past decade won't go on and on.

During my field trips, as I travel by plane to all parts of the nation, it is very obvious from the air that every city, town, and hamlet has its own vastly-expanded building activity. Great new subdivisions of new homes are springing up everywhere, not to mention the many new schopping centers, office buildings, hotels, apartment buildings, motels, industrial buildings, and new roads.

How much longer can the building boom go on? Great publicity has been given to the nation's population growth, but the building of new homes at an average rate of over one million a year for the past dozen years already has discounted a great deal

more than this growth for years to come. Within two or three years I think that the builders and the public will come to their senses, the false illusion that *"our government supported prosperity will continue forever"* will have received a fatal shock among the masses as increasingly more foreclosures and bankruptcies appear in the real estate field.

From this point on, foreign competition to our own industries and to the economy as a whole is going to have some seriously adverse effects. Since the end of World War II, our government has given great sums of the taxpayers' money each year in the form of foreign aid. Now the entire program has become a threat to our own prosperity. Foreign countries, thanks to the money given to them, are now our greatest competitors.

Nations such as Japan, Germany, France, Italy, England, Norway, Sweden, and Denmark, have learned that with lower labor costs and automation they can produce almost anything at a lower net cost than we can. Therefore, more and more goods are being shipped into this country, total imports have been rising steadily in recent years, competition is growing keen, and within a short time over-production will be apparent.

Remember, too, that when automation in this country helps to bring about that over-production, prices will fall, factories will shut down, unemployment will rise to the highest levels in our nation's history, and people then will no longer be able to make the payments on their homes, their farms, their offices, and other real estate. Project promoters will suffer; banks will be stuck with delinquent paper, and about that time you'll be able to buy your dream house for a song. That is, if you have prepared for all of this, and have the cash!

Another sign of a coming depression will be thousands and thousands of business failures. As always, these will be mostly small, poorly financed operations, where management has little experience. Where management is composed of men who are 50 years of age or under, as well over 60% of them are, they have very little or no recollection of the 1929-1933 depression. The chances are better than good that this group will not be prepared to weather a major depression.

Want to buy a gift shop, restaurant, apartment building, a business, or a motel? You'll get your chance in the next two to

five years. If you are in a cash or a liquid position, the bank will be delighted to have you take over for a very small down payment, and maybe, if you'll just assume the loan!

All of this may sound terribly gloomy and hard-hearted, but it isn't! We are merely facing the probabilities of our future economic life in an unemotional manner based upon experience and study. For the level-headed person whose economic decisions are anchored to sound research, who will not allow himself to become a part of the current mass boom psychology, (or the pessimistic psychology of a depression which will follow), who hasn't become emotionally drunk on the climbing stock market and astronomical business figures, the coming depression will be *the opportunity of a lifetime,* providing he has set up and executed a plan whereby the cash to buy up the bargains will be available!

You can meet it, you can weather it, and you can beat it—that is, if you face the facts as I have outlined them in this book, plan accordingly, and stick to your plan. Let us consider your depression-beating plan now. It is a plan which involves getting out of debt and building up a liquid, cash position. Carrying it into execution may well provide you the peace of mind, the emotional stability, and the *"cash-on-hand at the right time"* that make for success, enjoyable living, and financial security.

You should begin by selling stocks. Determine for yourself where you stand now and where you will be satisfied with the profits in your over-all stock position. Maybe you are satisfied right now. Then sell. If not, then take profits on strength, if possible. Pay Uncle Sam what's due him. Don't make the mistake of allowing that *negative* emotion, "greed," to make you hold on too long, or to refuse to pay a long-term capital gains tax. Back in 1929, people held on too long because they didn't want to pay the government a 12½% capital gains tax. Now they don't want to pay the 25% rate. Thus, just as we have to conquer the *negative* emotion of "fear" at the bottom of a bear market we must be stronger than our other *negative* emotion of "greed" at the top of a bull market. The same line of reasoning, of course, applies to your bonds, your real estate, and your business.

What to do with the proceeds? A great many people will ask, *"What will I do with the money?"* There seems to be the feeling throughout the country among investors that their money has to

be working all the time. If you have had it fully invested for a long time in the stock market and real estate booms which have developed, then your money has done well over the years, and it deserves a rest. You and your money deserve a vacation for a job well done. Put your money in the lock box, or in short-term Government paper, and go fishing for a while. Take a trip around the world. Relax, and enjoy yourself. Then later, when the depression is hard upon everybody and prices are way down, then come back from your vacation and go to work again.

Equally important, after a good vacation, you won't be as likely to become set or to "freeze" emotionally, after you have enjoyed a relaxed vacation. You will be able to overcome your fears and be able to carry out your aggressive plans in buying at the bottom just as you did in selling at the top. The odds will be excellent that after the averages have moved downward in a "bear" market for a long time, you will not be too emotional about it and will say that it is more or less normal for a primary bear market to last from 3 to 5 years and that the time is here to begin thinking about the next primary bull market and selecting some good growth values again.

It is well to remember that your money becomes worth more, it will buy more, as a depression unfolds. Percentagewise, it is more profitable to buy stocks, bonds, and real estate at overly-depressed prices during a depression than during a boom at high prices. When a stock advances from 10 to 20 during a depression you have the same 100% gain on your original investment as when it advances from 100 to 200 during a boom.

Also, the risk involved in buying good quality stocks in a depression is far less than the risk at the top when mass psychology, rather than value, rules the trend of the market.

Earlier, I mentioned the importance of studying market trends, research, self-analysis, mass psychology, a correct investment procedure, and the benefits that may come to you from making the acquaintance of, and learning from, successful investors. When a man is a success, there is much to be learned from him. With this in mind, the next chapter is presented with the thought that you may be interested in knowing how various investors among my subscribers to the service have found their way to success in the market.

Chapter XX

CASE HISTORIES — LET SUCCESSFUL INVESTORS TELL YOU THEIR OWN STORY!

Be guided by the suggestions and methods that have made money for others.

There is always a sound, sensible reason and a lot of romance behind every success. Whenever a man has a profitable business, unusual profits in his stocks, and the better life that comes with financial security, it becomes interesting and sometimes extremely profitable to study his philosophy and the thinking behind his success. Almost always there is a valuable lesson to be learned.

Our libraries and book stores are full of books written by authors who have never climbed very high on the ladder of success themselves, and hope by the sale of their books to get up there somehow. Investment ideas, trading methods, and economic discussions can be found just about anywhere if an investor cares to look around. All of these, of course, serve their purpose as far as they go.

But learning how to make money in the stock market is a study that goes deep into the innermost workings of such things as growth, patience, economic cycles, market trends, human nature, and a stock market philosophy.

In this chapter, you will read about how some of these fundamentals of success have worked. We are deeply indebted and grateful to the many subscribers who have made the effort to help you, as an investor, to find the road to success in the stock market as they have done. On April 27, 1960, I announced that I was

working on a book with the purpose of helping investors to profit for years to come, and that I would appreciate a few case histories from subscribers who were willing to help others to profit in the market by telling of their own market philosophies and experiences.

I was deluged with case histories. It is impossible to publish them all. Of those we have selected, my first impulse was to give their names, or initials, and where they lived, but for obvious reasons, and because many of their successes have been so fantastic, it obviously soon became very unfair to these subscribers for me to divulge their identity in any way. This book has been written in the spirit of helping people. Many of my successful subscribers have written their case histories in that same spirit, and to give any clues as to who they may be might have an unfavorable backlash to some exceptionally good people who certainly do not deserve anything but the very best for their efforts in helping the investor public. Allow me to express my grateful and most sincere thanks to all of you who sent me your case history, regardless of whether or not it was selected for publication here.

May I suggest that you read and study each case presented carefully? Read them slowly and thoroughly. All were selected for their helpful contents and a variety were chosen purposely. Let what they say soak into your conscious, subconscious, and into your own deep emotional pattern of thinking. Do this over and over again. Seek out the truths that seem to fill in your own particular needs. Relax, bathe yourself with this newly-found knowledge, and absorb the wisdom that will come to you.

For you as a market student and an investor, the case histories which follow should be stimulating and some of the ideas presented may well help to crystallize some constructive investment thoughts of your own that may influence your future investment planning more than you think possible. Nothing has ever been published like it, that I know of, in book form. Pretend that you yourself are sitting beside these men, talking, thinking, getting their investment views, and filling your own soul with their market philosophy. I have selected cases in all walks of life for you to study; all professions are represented; many are wealthy; some are millionaires; all are keen market students; and all have volun-

teered to help you in their own way and with an open heart to show you the way to profits in the stock market.

Early mistakes help a teacher to accumulate $200,000

I am enclosing an account of "my story" over the past decade and one-half. Your letter strengthened my hand many times, hence I am forwarding the story even though I am not too eager to have the world know that it is *my* story. If you can use it under the initials you are free to do so. But I could not permit you to use my full name. Sorry! Too many individuals would be able to identify it. This way I shall have some defenses to aid me in retaining anonymity. Also, this represents my own typing. I hope you will have your secretary re-type before publication if you should decide to use it.

Twenty years ago I was 1,500 dollars in the red. Several years earlier the market consumed (and I use that word advisedly) all of my assets mostly due to margin buying. I borrowed 500 dollars from a long-time friend to help defray current expenses.

A few years after the debacle I related my experience to a local investment counselor whom I had just met. At once he said, reassuringly, "the market owes you that money and you must get it back from the market." This was a new idea and I needed one badly. This man is still my financial counselor and my friend and many times I have expressed deep gratitude to him for his continued wise counsel.

In due time I cautiously re-entered the market with a few hundred dollars which were again available. I laid down several rules for myself, namely, to eliminate margin buying, to make long-term investments, and to pay the necessary fees to retain my financial counselor. All of these I have kept through the years.

Soon I learned that I needed additional help. I placed trial orders for several different investment services. This only complicated matters. There were times when one said "sell," another said "buy," while a third urged me to "hold" certain stocks. It was obvious that I myself, had to decide which theory of investment I would follow. Fortunately, I decided in favor of Schaefer's Dow Theory.

Over these 15 years all dividends and savings were re-invested in the market. There have been periods of trepidation, occasional periods in which the market structure seemed utterly fragile, yet, fortunately, I followed your recommendations. Today, I have no debts, my 25,000 dollar residence is paid for, and currently my stock holdings are in the area of 200,000 dollars. You will understand what this means to an individual who has spent his life in the teaching profession.

$135,000 grows to $500,000 with primary bull trend

In all games involving a ball, especially tennis and golf, the main thing is "Keep your eye on the ball" In investments the ball is the *primary trend.*

All the investment advisers, financial counselors, and security analysts in the United States agree with Mr. Schaefer with one distinction, viz., Mr. Schaefer describes the primary trend before the event, and then these others, after the turn of events, belatedly coincide.

I study practically every financial service in the country and am in touch with several trust committees in the east. Nevertheless, Mr. Schaefer's concepts have been the only faithful and veritable source of information, outside of my own thinking, which I have been able to find. Furthermore, there is no, repeat no, formula timing plan in existence today of any value whatever when put alongside the Dow Theory tools when rightly applied.

I have accumulated $500,000 for myself, family and clients during the past ten years by holding all my stocks, the winners *and the losers,* and awaiting eventualities. In doing this I have not plowed anything back and have accomplished all of this with a modest starting sum of $135,000. I do not discuss specific issues. I have found it gainful to "Keep my eye on the ball!" and to leave "individual stocks" to those who like to get battered around from pillar to post and back again to pillar.

In the summer of 1953 I went to Indianapolis and spent four hours discussing the major trend with Mr. Schaefer, and asking questions of the preceptor, and gained a nice wealth of knowledge from him.

Stay with good stocks when the long-term trend is up

In reply to your invitation to outline our investment experiences, I am glad to offer ours for whatever they may be worth.

As a background, let me say that having been badly burnt in 1929-33, stocks were an anathema to me for many years and it was not until 1954 that from the standpoint of courage as well as ability I gave them any thought. At that period I took a flyer in a mutual fund which turned out reasonably well over a year period. Following this I made the acquaintance of a broker and took a service emphasizing the economic outlook for the country. The brokerage connection proved to be a sour one except for one stock we still own which has done nicely. The economic service which stressed stocks such as American Electric Power, Fed. Department Stores, Reynolds Metals, Dow, G. E. and Florida Power turned out much better.

About that time I saw your advertisement in Forbes and over the next year sampled you several times. Still having sensitive fingers from the fires of '29 I could not escape the unconscious reaction of caution, but as I watched the market and followed your record my courage slowly returned and we decided to buy in March of 1956. The averages were high at around 500 but your record had proven so correct over the long term that I decided to try it out. The fall of 1957 was crucial. Much advice was showered on me to sell as the "bull market was over." Fortunately I resisted even though the loss at the bottom was about $13,000 or 30%. Then in the Spring of 1958 we decided to take an extended trip abroad and considerable advice was forthcoming as to the wisdom, or lack of it, of leaving one's money in common stocks in such a high market while so far away.

I had, however, become convinced that the Schaefer Reports had proven a sounder basis for action than any other so we left for our trip with our investments intact. Needless to say that the market paid for our trip. History tells now what happened during the rest of '58 and since and with a number of changes in our portfolio improving the quality of our stocks, our loss of '57 is now a profit at a new all time high in spite of the Dow-Jones averages being down 12½% from last winter. In fact from the

low of 1957 at 419.70 to the present 607.73 which is an increase of 45% our list has grown 238% from the low.

I have tried grabbing for quick profits and moderate term trading, but by far the best results have come when I chose stocks of merit. To have followed the wavering heart beats of the rank and file of brokers and so called analysts would have scared me out of our grandstand seat long ago but I have felt that anyone who in the overall can be so right for ten years has a better chance of leading us through the fog of misinformation and misinterpretation than anyone else. I entered the market very late and our stake is not large when compared with many, but if it had not been for your advice I would not have any profit and would in fact probably have sold out in '57, never to enter again.

This then is our Philosophy. Stocks in seasoned companies showing a rising trend in earnings, in industries which are catering to the basic needs and desires of the people and companies showing results of research in developing new products where most of the profits are continually plowed back into expansion. It seems to me that this program cannot help but show results if one *stays with it* and can be soundly advised on market long term trends.

Frankly, we have sampled other services at the same time we have been using yours. To have followed them would have whipsawed us at times terrifically. Many thanks to you for having unwavering courage and sound conviction, based on keen analytical research.

Wisely and conservatively invested savings climb to $150,000

My interest in corporate securities began in the year 1932 in the midst of The Great Depression. At that time I was a college instructor who had invested savings of $6,000 in a duplex apartment building which was brought down in price to $2,000. However, I could neither sell nor borrow upon it and had about $300 cash balance. I started placing this in stocks such as U.S. Steel, Sears Roebuck, and General Electric, odd lots of which were bought on the generous margin terms of those days. By 1941, my assets had grown to about $10,000. Going into corporate

securities at that time was based upon faith that the depression would pass and the prosperity cycle would appear One could not be sure that the free enterprise system would continue because the radicals were shooting at it, and, although not overthrowing it, did manage to slow recovery.

In 1941, I left college teaching because it had given me barely subsistence and went into professional research on economic and social problems with a midwest concern. This gave me a fair salary and I could accumulate some savings.

In 1946 after the end of World War II, I began to buy corporate stocks such as Allied Stores, General Public Utilities, Northern States Power, Republic Steel, Schering, and Simmons. In 1949 I added a few more issues, and dropped some previous holdings. My outlook at this period from 1946-1959 was that the repressed potential demand would break out into growth and expansion of the American economy Although there was considerable radicalism just after the war, the American people as a whole turned more conservative and held down threats to corporate growth. Consequently, by 1959, my assets had grown to $150,000 and consisted of holdings in such stocks as General Public Utilities, Northern States Power, Montgomery Ward, General Motors, Texaco, Sunray-MidContinent, Union Oil, Republic Steel, Avco, General Dynamics, Electrical and Musical Instruments, American Metal Climax, Atchison Preferred, Columbia Gas, in from 100 to 500 share lots. Some of these are intended for permanent ownership, some for sale at a propitious time.

At the present I am uncertain as to the future of the American economy. There are several possible roads: maintenance of the private enterprise system with business riding out the small inventory recessions which are to be expected, reckless governmental expenditures leading into heavy inflation, coming into power of the radicals with governmental restrictions on business enterprise and pressure-group slashing of corporate profits. If one can foretell the line of events, one can handle his assets to a better advantage.

A fabulous $5 million profit in Polaroid from $400,000 start

I tried to reach you by phone the other day but I guess you are

quite busy these days. Regarding that letter I wrote you last July, just wanted to report that I finished the year as per schedule regarding those calls.

Realized income, 1959, was over $150,000, audited by an international firm. My estimate last July for 1960 fell way short of its bullish aspect on Polaroid. Position now over $6 Million, equity over $5 Million, with less than $400,000 starting capital three years ago. Profit on calls this year over $100,000 to date, with expiration dates running into August and September. Original starting capital in calls, June 1958, $40,000. This has grown now to well over $300,000. $18,000 invested in June, 1958, has now grown to a value of over $600,000.

I credit this to your basic indoctrination of properly interpreting and following the primary trend, aside from a thorough study of the companies whose securities I purchase. Some of the things I have seen and experienced on the street the last three years make me shudder when I think how some of those bears have been whipsawed and how stupid many considered me—and still do—for following your interpretation.

Your book will be the "Blue Book" of the security market, and its great success is assured. You have a standing order from me for six copies.

A trader says—it can be done

While operating as a partner and general manager of a manufacturing establishment I had very little time to study the stock market. My theory was to put what money I could into "sound" stocks from time to time hoping that some day they would appreciate.

Since selling my business recently I found myself with ample time, quite a few stocks, some dividends and an entirely new aspect before me. Two things loomed large; one, that dividends were too slow in coming, and two, I did not know what a stock was actually worth or how much I should try to get for it.

After some floundering I adopted the Dow Theory. Here was some basis I felt I could operate within for greater returns. I not only started charts on a daily basis but also on a point and figure long range program.

At first my success was nominal but my recent transaction is worthy of note: showing great strength American Telephone and Telegraph Company rose rather abruptly since early February. Early in March it receded and consolidated–to form a most beautiful flag (pennant) and pursued a vertical rise during the second week of April. My P & F chart showed the "mast" continuing nicely. As the "flag flies at half-mast" I counted the points to the flag–and hence to the "top." On April 19 at 10:30 a.m. I sold out at 96⅛. It is history that later that morning "T" sagged and within three short days was back to 88. The Theory had worked superbly and I had about doubled my purchase price.

I had proved to myself that it not only "can be done but I had done it."

A $19,195 profit since April 20, 1958.

I first became interested in stocks in 1950. Then in 1951 I bought considerable amount of stocks, by 1953 I had some nice profits and in 1953 the market started going down and when the market got down to where my stocks were worth what I had paid for them I sold. This was a mistake which I found out later; had I kept those same stocks in a little over a year after I sold them they would have been worth about $20,000 more money. I put the money then in government bonds.

I first began getting letters from you about October 1957. I picked out some stocks from your lists and added a few of the ones I thought were all right. I followed all of these on my daily charts until April 20, 1958, at which time I cashed my government bonds and went back into the market. The Dow-Jones Industrial Average was about 425 on April 20, 1958, when I made my purchase. Had I not been getting your service, chances are I would have been sold out again. Your service has taught me a number of things. First it has taught me to be a seasoned investor for the long pull and not an in-and-out trader which can be very dangerous. Your service has also taught me that if the market goes down, why should one get jittery, if you picked good stocks in the first place they will do all right in the long pull.

I am certainly happy with your service, in fact don't see how I would get along without it. My list of stocks purchased on April 20, 1958 is as follows: General Portland Cement, American Cyana-

mid, Borg Warner, Motorola, Std. Oil Ind., Phillips Pet., Winn Dixie Stores, Caterpillar, and Texaco.

On my total portfolio I have a gain as of this day of $19,195.00.

A happy retirement—everything I had hoped for!

In the early forties I decided to further my plans for retirement inasmuch as my three children would soon be thru college and no longer need much support. To me it seemed that common stock investment was the plan of choice. So from 1940 on I entered into a plan of investigating and investing. After a few instances of selling too early and possibly influenced by some "scare" advice I decided that holding was the better policy for me.

Through stock splits, stock dividends, etc., quite a number of my stocks show quite amazing gains.

Of the 83 stocks I have, but 7 are selling at present under price paid and in but one case by any appreciable amount. To match these I have at least four times that number that have doubled, quadrupled one a $4,000 investment now is a $120,000 valuation.

Best of all the dividend payments are at the rate of $2,000 per month and as I have now retired having home in Florida for winters and residence on a beautiful lake in Michigan for summers, I feel my plan has been everything I had hoped.

If my experience can be of any use to you feel free to use same. I have really appreciated your "non-scare" attitude on present market.

Investment in the market can be rewarding—financially and spiritually.

I hope that the enclosed "case history" will be of some help in the preparation of your book.

It is shocking that so many people enter the market blindly. If my few experiences can be of some assistance, please feel free to use them any way you choose.

Here's hoping the general public will find your service as invaluable as I do.

My first look at the "Market of Wall Street" came at the tender age of 13, when I found myself the sole heir of an estate consisting for the most part, of stocks and bonds.

Although held in trust until a certain date; it nevertheless seemed wise to become acquainted with market happenings, so that I could better understand the stock changes that would occur in the normal trust transactions, and to be further qualified to handle it myself one day.

In the fourteen years of daily reading the "Wall Street Journal," and studying the various financial magazines, I have come to realize more than ever, that an individual cannot and should not enter the market blindly.

A lifetime of study still does not insure success, as the market is dependent, not on one thing, but on many for its stability.

World news, a President's illness, and plain "scare" feelings of the majority can cause radical fluctuations.

Above all, one should never accept a "tip."

Instead, read a good financial paper regularly and invest in an analytical bulletin, such as the Dow Theory Trader, (which I have found to be invaluable).

One can purchase a stock for income, growth, or speculation and profits can be made if one is wise and invests in a company that is sound.

I always try to keep a well diversified selection, (this seems to balance the losses and gains out nicely) chosen with care; as the old saying, "penny wise and pound foolish," still holds true.

By following the above mentioned methods, I have fortunately been very successful.

Although profits are made from the so called "popular" stocks; by investing in a "proven" stock the gain is better assured, and oftentimes non-the-less admirable.

To mention two holdings: General Foods purchased in 1958 at 57—now selling at 103¼——duPont, also purchased in 1958, at 176.37——now selling at 204 (having reached a high of 278).

Investment in the market can be rewarding financially and spiritually. It gives a great deal of satisfaction to know that one's money is helping a company expand and develop.

The philosophy of a subscriber who ran $292,045 up to $3,052,260 in 9 years!

As per your request in your letter of 4/27/60 asking your sub-

scribers to come forth with their experiences in the stock market, I have hesitated to do so till now because of the unusual position of my portfolio, completely unmargined, and to me, the fantastic amount of appreciation of my account. However, I feel a certain obligation towards you and your service, because although our thoughts and actions parallel, nevertheless you have been like a Light House in stormy weather, and a real anchor, to solid bullish thoughts, when the waves of bearishness were beating all around us.

I am a very happily married man of over 50 years of age. Have had a successful business for over 30 years, and am now more or less in a state of retirement. Bought my first shares of stock when I was 17 years old, and have not been out of the market since. Going back to my early years in the stock market I always expected and tried to make a killing by placing all my funds in one stock. Frankly, thru broker's advice and financial readings and study. I generally picked the right category, but as usual, always the wrong stock. *That is where I learned my first lesson. You must diversify!*

Secondly I tried trading, made quite a few good ones and then, as usual, along came a correction and all the profits accumulated in my prior trades would be wiped out in the stocks that I was holding on a decline. I have tried switching my stocks around, and over a period of 10 years I found that 75% of my switches worked backwards. What I sold, went up, and what I switched into, went down.

I have always been a great believer in financial publications and services. Because these firms get up facts and figures, keep charts on stocks and market movements, have field men go out and interview the various companies, and then present their findings to you in a condensed and precise manner. I have used the highest priced services and I have taken the cheapest ones, but until I came into contact with your service–(Schaefer's "The Dow Theory Trader") my success marketwise was only so-so. I can truthfully say I trace my present success and market position, from the moment I first subscribed to your service in 1951 or 1952; and became indoctrinated in your thoughts and thinking, marketwise.

From my old records I come up with the following interesting figures: Equity–12/30/50–$292,045–, Market value of holdings–

12/31/59–$3,052,260. Seventy-five per cent of my present portfolio is the same as it was 10 years ago. My portfolio (as a whole), using year-end figures during this period of time, has shown me a paper loss of as high as $200,000 and paper profits far in excess of anything I ever expected. I would have sold my holdings a long time ago, but for your service, which cried out week after week that the market had a long way to go on the upside. Also, if you check your files you will notice where I sent my portfolio in for an analysis six or seven times. I always got back nearly the same answer—remain fully invested—keep your account well diversified.

Battles fought to come out on top. Under this caption I could nearly write a book but I shall be brief and name only a few. Fighting the desire not to sell at a tremendous profit because of the belief that the 3rd phase of the bull market had not yet reached its zenith. Fighting the desire and advice of my friends, family, and brokers to sell off enough stock to solidify my market position so a drastic decline could not hurt me financially. One of the greatest battles—*not to switch stocks*—I have in my files switches recommended by the best of services and my brokers. If I had taken their advice and made these switches the market value of my stocks would have been hurt considerable.

Why I got into the stock market. Primarily to make money. I had a successful business but wanted to diversify the profits I made into something else besides plowing all my gains back into the business I was in. So I chose stocks. The long term profit angle was the most convincing of all. You keep 75% of all you make and pay Uncle Sam 25%.

My investment philosophy. Personally I believe and advocate to my friends in buying a diversified group of stocks and staying nearly permanently invested. Changing or selling stocks *only* when they have exhausted their potential, or when the company I am in begins to deteriorate. I am a firm believer in stocks versus any other kind of investment, for several reasons: We have an inflationary impact in our economy of about 2½ to 3¼ per cent, per year. Sometimes this impact could become 5 per cent. This means if you buy a 10 year government bond today for $1,000, ten years from now you will get back your $1,000 plus interest, but if the economy has deteriorated 3½% per year because of inflation

your $1,000 will only buy $667 in terms of 1959 values. Whereas if invested in good stocks, the same amount of money should appreciate in value, paying good dividends and not deteriorate, thereby beating inflation. Stocks are very liquid, you can sell and get your money the same day (if necessary) regardless of how great the amount is. Try to sell a large tract of land or building and see what happens. Your buyer will give you a down payment and notes and even if he pays cash there is always an extended period until you actually come into possession of the money. I do not have to remind you that stocks are the cleanest form of inheritance to leave in your estate. They can be probated nearly instantly, whereas property or other tangibles take time. I have known cases where estates have not been settled for a number of years and then only thru much legal work and expense. I could go on with many more comparisons, but I think my *greatest point* on stocks versus other investments is this: When you buy stocks in the good corporations of our country, namely General Motors, U.S. Steel, American Telephone and Telegraph, duPont, and other corporations of a like nature you become a partner with the best executives and business brains in the world. If they can't make you money, frankly, what chance do we have?

Why this market will go higher over the years. The reasons to me are very obvious, at present we have over 13 million stock holders, double since 1952. They are in continuous competition with the Open End funds, the Mutual funds, the Pension and Insurance funds, just to name a few, who statistically buy about 18 to 20% of the total stocks traded each day. This does not include the Personal trusts of approximately $30,600,000,000, nor the private pension funds of $33 billions held by banks, nor does it take into account the holdings of the big Institutional buyer. With this array or line-up of buyers you can readily see why all good stocks are so high and continually going higher.

I BELIEVE——

As long as our population keeps expanding in the explosive fashion it has since 1940, with a record of more than 63 million babies

As long as new family units are increasing at a record rate

As long as people are migrating, requiring new houses, new auto-

mobiles, new furnishings, and new public utilities of all kinds.
As long as automation and capital expenditures are on the increase by the corporations of our country
And as long as research and development is continuously pushed, and finally–
As long as consumer spending keeps up its record pace, I have no fear of the market, nor the future.

The last ten years have taught me it does not pay to trade. I have seen too many of my friends try it, but always winding up behind the 8 ball. I do not believe in short selling, I am a born optimist and believe in the growth (future) of our country. The greatest thing I have learned in the years I have been in the market, to succeed you must have patience, then a little more patience, and finally still more patience.

A pot of gold increases in value.

About ten years ago, I came to the conclusion that the stock market was the place to make a fortune in a hurry. It was a "nice clean business," no overhead, good profits, easy work, small investment, no boss to order you around, about as ideal a proposition as a fellow could desire. All you had to do was buy a stock for 10 sell it for 20 and make a thousand dollars a week. What was I waiting for!

Now ten years later and quite fortunate that I held on to my retail business through all the excitement, I can look back and recall how I ran, not walked, to the nearest brokerage house to get aboard the gravy train. What a ride I had—wow—! Everything I bought went down; everything I sold went up. I found that breaking even was the greatest dream and the fondest expectation of most of my colleagues of the board-room, a practically impossible dream to most of the boys.

Along the road, several sign posts made an impression on me: The stock market seems to be all things to all men, with the speculators, reading long and detailed reports about their favorite companies, then selling the stock at half a point profit or a point loss and considering themselves great investors. The investors developing ulcers because their stock went up ten points then down fifteen and they did not sell in time or they did not buy one

in time before it moved. All getting a thrill but no profit! The customers men who buy as investors and sell as speculators and rationalize it by trying to "protect their customers." The financial press is really something. If you are looking for an opinion to confirm yours or to contradict someone elses you will have no trouble at all. Opinion varies from long term bull, short term bull, long term bear, short term bear, and in between bear or bull if there is any such thing. What an amazing "fraternity." Something for everybody, but no profits.

Luckily for me—before the train stopped, I found the "balance wheel" of the stock market. It was the primary trend of the market. By keeping one's "eye on the ball" (the primary trend) everything fell in place. A stock with value will work out fine. By following the primary trend reactions become minor, not important, dull periods part of the game, fluctuations just trying to confuse the uninitiated.

Your service, Mr. Schaefer, supplied the answer by plotting the elusive and all important primary trend. The rest was easy.

To round out my investment philosophy I just took over the pot of gold. At one of the stations along the way I discovered that most "informed" opinion seemed to think that sooner or later the price of gold would be raised, claiming that it was the only commodity that had not increased in price in recent years. Whether this is true or not, I have found that accumulating gold stocks, for about five years, in tune with the primary trend of the stock market has paid off for me.

My holdings include Giant Yellowknife Gold Mines, Dome Mines, New Dickenson Gold Mines (tor), Consolidated Discovery Gold Mines (tor).

I have about $5,000 invested in gold worth about $8,000 at current prices, approximately a fifty percent profit on my investment and I receive about 7% dividends on my investment. I consider this a triumph over the wolves of Wall Street. You have my permission to use all or part of this letter if you wish.

Investing his own money with patience, pays off.

My case history is somewhat dull and probably of no interest to anyone except myself. After 1929, there was a long period when

the best of stocks were very cheap but money was scarce. Thereafter, I began to buy stocks most conservatively in standard companies. I was not interested in tips or gambles. However, G.E., American Gas & Electric, Georgia-Pacific, Chicago Pneumatic Tool, Westinghouse Electric, and the Standard Oil stocks have turned in glamour performances. I do not trade. Occasionally I sell when convinced that my judgment was at fault. New funds are employed in the buying of stocks in leading industries, with a history of satisfactory earnings, good management and progressive research facilities.

Your service has been of value in preserving my optimism in the essential soundness of our country. I also read the advice of other conservative services and am interested in what the funds are buying and selling. I ignore the advice of bankers and brokers. Having been connected with the affairs of many persons who have acquired wealth by investment, I have concluded that the basic essentials that I observe in investing money of my own, with patience, pay off.

Reliable information and a sound investment philosophy result in $177,600 profit over 10 years.

I inherited good stocks in the 1930's, then valued at about twenty-five thousand dollars. By August, 1949, I had run their value up to about $76,000 by careful buying and selling and reinvestment of dividends.

Then my husband lost most of his fortune and ran his business into the ground because of failing health and became a complete invalid until his death in 1953.

I had been an active executive in my husband's two corporations and Vice-President of both. When I realized my financial position I liquidated the businesses and devoted all my time to studying investments. From 1949 to 1959 no further dividends were reinvested, as all that and a lot of capital gains as well had to go for living and high medical expense.

My credit was excellent, so I used some borrowed money to expand my investment portfolio. In July, 1959, the value of my holdings in common and preferreds was $303,500, a profit of $177,600 in ten years.

This was how I worked.

I never bought a share of stock direct from a broker, nor did I ever follow the ticker tape. I preferred to trade through my bank because I was afraid of being influenced by excited gossip, false rumors and "tips" on the maket.

No matter how alluring a stock might appear I never bought without studying and digesting every bit of information I could get of a reliable nature, such as factographs, past and present performance in the market, dividend record, etc., reading and getting advice from my banker, E. George Schaefer's Service, and other financial services.

I always believed that investments should be tailored to fit the individual. For instance, from 1949 to 1954 I carried stocks for secure income rather than spectacular appreciation. Since then I have been primarily interested in capital gains, so have concentrated in growth stocks, regardless of income, since, with a bull market and continued inflation, my capital gains have each and every year given me more than enough to live on, or to piece out a small income. I am now in my fifties. My income has varied all the way from six thousand per annum to fifteen thousand, being planned in relation to personal needs and capital gains.

There is no year so far in which I have taken any spectacular losses, perhaps because I watch it closely and have the nerve to act quickly to take a small loss when I feel that my judgment has been at fault. Like most investors, I take frequent planned losses to off-set capital gains.

Some of my gains have been fantastic, at least to me. The best have generally been in high-class issues, and some blue chips, such as: IBM, U.S. Steel, General Electric, Union Carbide, Rexall Drug, Kennecott, General Motors, and certain preferreds with a large accumulation of back dividends. While I consider myself primarily an investor, I have been in and out of these stocks many times, selling at a good profit and buying back later at a lower price.

My philosophy? About this, I would say:

Don't try to grab the last penny. If you have a good profit be satisfied that the other fellow gets a little. No one ever buys at the bottom and sells at the top very often. There's always another good thing coming along in an expanding economy like ours.

Never take "tips" on something you know nothing about, unless from someone very close to the top of a company.

Think "big" but stay modest enough to listen to advice from those qualified to give it.

Decide whether you want top income or top capital appreciation, for you seldom get both. Keep well informed and use your own judgment after finding facts.

The stock market is my hobby. I have doubled my money in four years

I dabble in stocks as a hobby. We shall soon retire and every book or article about retirement says you *must* have a hobby. I looked about and hit on the financial page of the newspaper—I had never read it before—I borrowed books and bought some to learn how to understand the financial page and to invest. I have a small income of my own. I wrote to a broker saying, I had about $4,000 plus that I could safely "afford" to invest, would he like to suggest something. I also sent the same letter to another large brokerage company. In a few days I had a reply recommending four issues—I decided on one list—the other list turned out not nearly so good. I bought 20 to 30 shares of four companies—nearly all blue chips—and I was in business. As my small income plus the dividends piled up I bought another company, etc. Twice I have switched—if a certain stock isn't going up slowly but steadily I think my money will do better in a stock that is improving.

I am now 70 years old. I've been in the market four years. My husband and I now read the financial page, a financial magazine and subscribe to your service. We let you do all the worrying for us and we gather in the dividends and study what we shall buy next. Even with the market as low as it is today, I have doubled my money since April 1956. I do not sell—why sell Beckman Instruments, Bell & Howell, Owens Corning Glass until I need the money after we retire? Perhaps then I'll see one to buy for cash, a new car or to take a trip. But I find the stock market fascinating and a most wonderful hobby with little dividends from twelve companies coming in every three months—and my investment growing with no effort on my part.

Income for retirement and capital appreciation too!

Replying to your general letter about investment experience, maybe mine would be interesting.

Am 69 years old, retired 2 years ago. In planning my retirement in addition to a company pension and Social Security I planned an investment program with a view of buying stocks of good rated companies having a dividend record over a period of years.

Some of my stock purchases were made as far back as 1936. Some I sold at a profit but came to the conclusion that the long term holding of dividend paying stocks of good companies was the most profitable in the long run.

I own a total of about 52 stocks, some at present are down but give me a nice income. Am not concerned about what the market does. If I have funds in excess of our family requirements, I keep buying additional stocks of the same holdings to average out my cost.

Even with the market in its present condition for every dollar I have invested, I could sell all stocks for about 2.80 which I consider "quite fair."

Hamilton—Rhea Dow theorist struggles admirably in his efforts to accept my newer concepts

I am 60 years old; a retired investor; formerly featured comedy dancer Ziegfeld Follies and major vaudeville circuits back in the 1920 to 1930 boom era. Put a fortune into stocks just before the 1929 crash as a complete novice and was of course wiped out along with most other folks of means; started inventing and patenting in 1934 which produced another fortune by 1950; studied everything available, meanwhile, on the Dow Theory as written by William Peter Hamilton and Robert Rhea, along with technical studies by Schabacker, Neal, etc.; have faithfully and studiously kept up charts of the Dow-Jones averages and some forty individual stocks most of this time; and have emerged at this late date a successful, but I am afraid cynical, trader in stocks; with an abiding and determined love for the short side of the market at the right time, probably psychologically stemming from my 1929

experience and the wish to "get even" for what the market did to me then.

Under the orthodox Dow Theory, of course, I sold out and went short in 1953, only to be forced to cover in early 1954. From then until 1956 was glorious. I sold out and went short again in 1957, and was so sure of my position that I wrote to E. George Schaefer, whose service I was then taking, and asked him to please not send me any more Bullish letters, as they were confusing me. As market history shows, of course, my short selling was again premature at that time, and I covered and went long again in 1958. I gained a new respect for Mr. Schaefer's third phase concept out of this experience, and proceeded to reinstate his service, with apologies.

I do not know Mr. Schaefer personally, but I argue with him all the time as the market picture unfolds, without him even knowing it. More often than not he has been right and I have been wrong, at least through the year 1959. At the moment, May 1, 1960, I am mentally arguing with him again. As I have pointed out, I have been conditioned psychologically to the Bear side of the market, whenever there is the slightest excuse for it. I see good excuses for it now, since January 5, 1960, and being an old line Dow Theorist I must at least make some concession to the orthodox Dow Theory Bear Market Confirmation which occurred on March 3, 1960. True, just such orthodox confirmations put me on the wrong side of the market, temporarily, in both 1953 and 1957, and I would have fared better to have blindly followed Mr. Schaefer's counsel, but I do not seem to be constituted to blindly follow anyone's counsel for long, and I find that with enough courage and agility one can reverse one's position quickly enough to prevent serious damage when a mistake is recognized. I find myself at the moment, therefore, just about equally committed to the long and short sides of the market, with my fingers crossed sufficiently so that if Mr. Schaefer is again right in projecting the bull market top into 1961 at a level of 700 or over in the Dow-Jones Industrial Average I will be able to safely hold the present short positions and gradually add to them out of the sale of remaining long holdings. Even Mr. Schaefer admits freely that the top is very near, (if not already passed), and I cannot take a

chance of making faces at my true love—the Short side in a bear market.

I recommend Mr. Schaefer's service to all students of the market, even 'tho I do not feel I have to agree with him all of the time. The most valuable one lesson he has taught me is to refrain from trying to "trade" the market for short swings, and thus dissipate any possible profits left after short term income taxes and brokerage commissions. I am hopeful that Mr. Schaefer's guidance in the coming bear market will be as valuable to me and others as it has been in the bull market now ending or about to end. Happy trading!

It has been fun—on $15,000 invested we now have $250,000 in stocks, $50,000 in cash, and a $35,000 home

I will be glad to give you a report on my stock market operation. I have been a subscriber to your letters since 1949 and owe much of my present position to your advice to stay invested. I would have done better if I had followed your advice more closely.

We own our home $35,000, free and clear and have $50,000 in cash in various Savings and Loan accounts.

Over the years, we have probably taken from $10,000 to $15,000 from our stock account to buy cars, or vacations, etc.

In 1928, when I first started to buy stocks, I did so thru my bank. It was fortunate that I did not know about stock brokers, because my bank carried me thru the 1929 crash, and I did not have to sell anything. I did not invest more than $15,000 total in the market, because my wife was against investments in stocks, and I had to do this on my salary and other outside income.

Like many others, I was a fall guy for glib stock promoters, and made my share of worthless investments.

However, I recall buying General Motors at 6 and selling at 10, and thought that I was pretty smart. I started buying copper stocks, when copper was 5¢ a pound. As I recall I built up a good account in the market, but was clipped in 1937.

At this time, I was out on margin, and had a "stock expert" advising me. It looked very easy. But when the market broke, I

failed to sell in time, and picked up the "pieces" and started all over again.

I again built up my account, and in 1946 I met a man who was regarded as the "Wizard of Wall Street." For $750 I engaged him to manage my account–and he had made a lot of money for friends of mine and I thought this was the road to success.

However, in 1946, I suggested that we sell some of our cats and dogs, because it looked like the market was going to drop. He told me that he was an expert, and would merchandise my stocks, and make good money for me. Well, fortunately he was an old man, and he died. But again in the market break of 1946, I again lost a good part of my stock account.

At that time, I decided to manage my own account and to invest in better grade securities and avoid the cats and dogs.

I started to buy Reynolds Metals, because I had faith in aluminum–in 5 and 10 share lots. And when I received a stock dividend I would even up to 25 share lots. Thus after 100 shares, a split to 1,500 today. I also traded in RLM and probably sold 500 shares over the years.

Another stock I bought at 20 in Minnesota Mining and Mfg., worth 195 today. Unfortunately I sold 100 MMM some months ago at 137, because some service said it was a short sale, and it had dropped from 150 to 137. Those are the mistakes we all make.

I also sold American Machine & Foundry, at 38 because it did not move–and AMF later soared and split and is one of the top stocks on the board. Unfortunately I did not buy it back.

Fortunately, I held on in 1949, and when the market hit the bottom, and when the Dow hit 163, as I recall, we had a value of $30,000 in the market. I think that I started with your letters about this time, and have been fully invested all this time, although many others have advised getting out of the market.

Of course, it was not easy to see your paper profits melt in 1957 and again this year. However, on the long run I have probably done beter by staying fully invested. If I had sold, I probably would not have re-invested my position.

Before I retired, I preferred growth stocks, and small dividends. We hope that the market will soon make a base and turn up again. At this time, we will switch into cash or only top stocks which pay a good safe income. As you advise we will hope to sell

most of our speculative stocks before the end of the bull market.

At one time the value of our stock account was near $300,000. Today, it is nearer $250,000, free and clear, with $50,000 in my wife's account and $200,000 in my account.

Here is a list of our holdings: 20 GF, 25 GE, 120 T, 50 UK, 150 GM, 105 J, 150 RLM, 10 Macy Pfd., 200 Chi, 1,400 RLM, 100 MMM, 330 ADC, 100 GY, 100 PEP, 300 M, 300 GLI-(new stock), 500 EMI, 300 EVR, 1,000 H, 1,500 FW, 300 Standard Packaging 6% Conv. Pfd., 100 Textron, 5 Minute Maid 4% Debentures 1974, 300 Cinerama Productions, Inc.

And remember, I started in 1928 and the total I have invested in the market is about $15,000.

Note that we have $50,000 in cash, own our own home and have enough income to live comfortably—and we can sleep nights. I am not ready to sell the U. S. short and believe we will improve our present market position.

It must also be remembered that for a period of years we have a good market for stocks. Then for a period of years, or at least months, the owning of stocks may be out of favor and the sophisticated investors will only buy special situations in growth industries which show definite trends of increased earnings.

In order to make money in the stock market, you must spend a lot of time every week—as I have done for many years—in reviewing financial reports and business information.

However, too many people who operate in the market take too many services and get conflicting reports. Thus, too often you become confused, and fail to use your good judgment to act.

Common sense will tell you which industries have the best possibilities and buy and hold stocks which are the top of such industries. Do not become attached to stocks—or stick with them because you know the President of the Company. Be objective—and if you make a mistake do not hesitate to take a loss—or take a profit—unless you have good reasons to have faith in the long term of your investment.

While it may seem that I have done well over the years—I could have done better if I had applied myself more carefully, and had used better judgment—and acted on information which I had before me.

When you are younger you can afford to operate in growth stocks, with little income. Nevertheless, when you reach retirement, it is a very satisfactory feeling to have sound, safe investments which pay a regular dividend.

But, it has been fun—and I still get a great deal of stimulation in following the market—and hope to make a profit every year for some time to come.

I find that with diversification almost every wide swing is a profitable one

I await your special delivery weekly letter each week with a great deal of pleasure.

Evaluating it with other services I find it condensed and on my trip around the world in April, I requested my family to send to me the little paragraph "Conclusions." It gave me what I desired knowing, namely a short concise resume of the week and a forecast.

Your service definitely saved me money during the period of Eisenhower's heart attack. At that time I used my own judgment in selling some stock for tax loss and at the same time I gathered a list for keeping on the rebound.

This same procedure is being used at this May 1, date. I am going along with you 100% on gathering stocks at these prices and holding them for the rise to come.

My history of trading goes back to study of Dow theory in 1923-25 in college. I believe in it and studied it and now find it unreplacable as a guide. One must certainly go along with the events of news and a sense of his own judgment to coincide with this Dow theory. That is why after 20 years of playing around with it and not adhering strictly to it, I found myself not making money. Now—it is with pride that I find most every wide swing—a profitable one for me. I do not try to catch all the short swings.

It seems to me the following are worth noting in your service.

Volume of daily sales of stocks, short interest, resistance points, stocks do not repeat their performances, value of diversification, and many more things that have been valuable. I conclude that diversification in the present market has saved me. With the holding of your low priced recommendations along with a group

in each category I find the rotation that goes on makes it possible to keep above board in profits when sell-offs come along.

How $2,500 invested in 1950 skyrocketed to a profit of $39,073.50 by 1959

I opened my margin account outlined below on Feb. 20, 1950 with $2,500 worth of stock in Panhandle Eastern Pipeline and Cont. Diamond Fiber. Purchases over the 10-year period were made during temporary market declines when margin requirements were no more than 50 percent. All cash dividends were reinvested in order to maintain a fully invested position at all times, but no out-of-pocket cash was invested. The only trading in the account was the sale of 130 shares of Spiegel, Inc. Proceeds of the sale were used to purchase those additional stocks as outlined below. The transaction was motivated by a desire to diversify slightly more in growth issues, and price of Spiegel logically dictated its sale.

Cont. Diamond Fiber was subsequently purchased by Budd. The exchange transaction brought 90 shares of Budd and 25 shares of Haveg Ind. Additional shares of these companies were then purchased during temporary market declines.

Dividends on this account during 1959 were $1,883.73; interest paid, $992.45. Now it is my intention to remain fully invested and hold out for the best possible gains from the last phase of the bull market in the 8 to 10 months ahead.

Permission is hereby granted to E. George Schaefer to reprint any or all of the data contained herein.

200 A J Ind.
100 ASR Prod., Inc.
100 Budd
100 Calif. Elec. Power
10 Cerro de Pasco
1400 Cerro de Pasco 5½ 1979
100 Continental Mtrs.
100 Del. Lack. & Western RR
44 Hammermill Paper
100 Haveg Ind.
100 Heyden Newport Chem.
100 Hotel Corp. Amer.
100 I.C.R.R.
100 Intl. Packers, Ltd.
100 Natl. Dist. & Chem.
6 N.Y. Chgo & St. Louis
150 Panhandle East. Pipe
400 Republic Ind.
100 Smith-Corona
200 Spiegel, Inc.
40 Stan. Warner
40 Sunray Mid-Cont.
100 Welbilt Corp.
100 Western Auto Supply

Total market value of account as of 12/24/59	$57,873.50
Original investment as of 2/20/50	2,500.00
Account value less original investment	55,373.50
Amount owed on account	16,300.00
Indicated gains on account as of 12/24/59	$39,073.50

Account transactions: Reduced holdings in Spiegel from 330 to 200 shares on 12/21/59. Proceeds of the sale, $5,860.96, were immediately reinvested in the following: 200 Republic Ind., 100 Smith-Corona, 100 Welbilt Corp., 100 Hotel Corp. Amer., 200 A J Ind., 100 Continental Motors.

Good fortune smiles on this investment-minded couple

My wonderful wife and I retired from office and school work in October 1951 at the early ages of 44 and 47. Good fortune smiled broadly and dumped a pot of gold at our doorstep which suddenly posed a pleasant problem of what to do with it to our best advantage over the many (we hope) years remaining to us. We were, of necessity and inclination, conscious of the worth of money from our early sparse earnings, but we also could envision sufficient money from this wonderful windfall to cover several years of comfortable living. However, how long would we live? What expenses and costs could we foresee? How much would dollars buy, even next year? How could we conserve, as well as spend or share, our good fortune over the years?

Being not entirely unfamiliar with the stock market, we sought advise from a dozen or more reliable sources. The stock broker helped with suggested portfolios; list of stocks held by several insurance companies, mutual funds, colleges and other groups were reviewed and studied as to their purposes and how their aims might parallel our aims. Then a bit of research in the market services revealed to our liking certain companies that had good histories, good managements, good prospects and healthy balance sheets, so we chose and bought.

With very few switches during these 10 years, we now have the following stocks; AA, T, BS, CAM, C, DD, GE, GF, GM, G, KN, LPT, BI, RS, SPP, SC, SO, J, SDX, UK, UP, X, and WX.

We also have a few U.S. Treasuries and some life insurance, no debts, and an annual income, after paying homeage to the Great White Father's treasury in Washington, of about $20,000.

Keeping up to date with our portfolio and it's income aim has, to now, been easy: read as much as you can, see what variety of advices from short-term traders to long-term investors, that could confuse one if he had no steadfast aim in investing, then summarize your thoughts by following SCHAEFER'S "The Dow Theory Trader"—then one can act, stand pat, or buy and sell with one's own mind and circumstances. With the Dow-Jones Industrial Average gain since 1951 from the 265 point level to the present 600 plus points, our above group of stocks have gained about the same, as well as having made a good percentage income.

Here's an eye-opener for any small investor!

I am only a small investor but possibly my experience in the stock market may interest others so here is my story:

I am a Civil Service employee. My wife is a legal secretary. We have two children.

Because I have a large insurance premium to pay each year and because my children were about ready to go to college, I decided to look around for a means of receiving a better return on our savings. Accidentally, I happened to read about your service in a financial magazine, so I decided I would send for a trial subscription. I read that first letter over pretty carefully—and I liked the way you outlined your principles—the investment model account and the speculative account you had set up—the weekly chart which gives an accurate picture of the market—so I decided that as long as I had your service to help me, I would buy a stock you had purchased in the investment account, which would not only bring me a good dividend but also a capital gain.

So I decided on Zenith Radio Corp. I took part of our savings and bought ten shares of Zenith on February 11, 1958 at 126⅝—or a total of $1,277.00. On April 1, 1958 as a result of a stock split, I received an additional ten shares—and on May 22, 1959, because of a 3 for 1 stock split, I received an additional forty shares, so that, today, my first investment in Zenith totals sixty shares, currently

valued at a little over $6,000—nearly five times more than my original investment. Since that first investment in Zenith, I have accumulated 210 shares, having bought additional amounts on the various reactions we have had.

Because I was impressed with your selection of stocks, your opinions, and your recommended market procedure, I decided to become a subscriber. In keeping with your service, I purchased shortly thereafter 25 shares of Emerson Electric Manufacturing Co. I paid 32⅜ for it—a total investment of $820.68. The stock has split and with stock dividends, my original investment is now 52 shares, currently valued over $2,000.00. I purchased 50 shares of Rexall Drug—a total investment of $789.00. With stock dividends, I now hold 54 shares, currently valued at around $2,500.00. A few months ago, I bought 15 shares of Motorola at 150—today it is selling around 167—and has been as high as 178.

So you see, by following your Theory, I have been very successful. Sure, I have had other services. One of them had me buying one week and selling the next. For a while, I'll admit I did stray and was led to believe the recommendations of this other service. It was a sad day for me—because I sold two stocks which I bought because of your recommendation. One was Beckman Instruments. I had purchased it at the high, however, (72) and possibly that may have been the reason I followed the advice of the other service and sold it. At any rate, Beckman was sold at 57—a fifteen point loss—all because I was foolish enough to try out another service. Today Beckman is over 78. The other was International Telephone & Telegraph. I bought it at 39—sold it at 31—today it is 42. So you see, you are perfectly right in advising patience in the market, and being well diversified and buying on any reaction.

I had another service that immediately advised me to sell when the false bear market signal was given back in February. I maintain I got a little panicky but I was assured by you that it was a false signal and to hold on. This I have done. Had I sold out when this other service recommended it, I would have been faced with a terrific loss. As an example, Emerson Elec. dropped to 33 and today is back up to 42¼; Zenith to 89—today 101¼.

I find that thanks to your service, I am better versed in market policy. And, being patient and well diversified is really the only way to success in the market. I shall continue to remain so until

your studies indicate the final top at which time I shall follow your instructions completely and with confidence in your every word—and later, when your studies reveal it is time to buy back into the market, I shall do so.

May I close by saying in all sincerity that your service is of very great value to me in reaching decisions—that you will find me a true Schaefer follower and very proud to be one. My only hope is that others will follow your new Dow Theory as I have because I know they too will profit as I have, whether he be a big investor or a small one.

Greater dividends and profits have given more comfort and security to retirement age

Looking forward to retirement in 1953 we started buying E Bonds in 1943. In 1949 we started investing in stocks, AT&T, Dow Chem., Sunray Oil.

As our E Bonds matured we invested in stocks partly on the M.I.P. plan. We now hold in addition to the above, Amer. Can, Canadian Fund, Car. P. & L., Reynold Tobacco, Std. Oil of New Jersey, Sterling Drug, Winn Dixie Stores, Sperry Rand 5½% Bonds, U. S. Treas. 2⅝—'65. Our original investment of $20,600 now amounts to $36,600.

We have never speculated to any degree when we did it was usually at a loss as in Eastern Gas & Fuel, Rhodesian Copper.

We are primarily interested in income and when a stock gets far out of line in its price to earning ratio we aim to switch to something showing 5% div. Had it not been for our dividends we could never have retired with any degree of comfort and security. It would seem that anyone who does not have a stake in American Industry is surely missing a bet.

A heart-breaking lesson when the stock that is sold keeps on climbing and climbing

Since most of your clients will be sending in gratifying reports of their profits, I thought you might be interested in this sidelight in which I learned a lesson I will never forget.

I had a substantial holding of Zenith Radio which I had ac-

quired at between 90 and 95. I am not an in and out trader as a rule, but since this stock was fluctuating rather widely, I felt, upon hearing the news of President Eisenhower's slight stroke, that the market would drop sharply and I would have no trouble making ten to fifteen points by selling Zenith and buying back in at a lower figure.

The market did fall sharply, but after I sold Zenith at 118, this particular stock moved up to 126 the following day and has kept on ever since to its present level (before splits) of approximately 620.

This is the only time I deviated from your general investment policy, and it cost me several hundred thousand dollars. I now understand why the small investor cannot afford to think he can call the short term market fluctuations, and must stay invested over a period of a long term during a bull market situation.

How $8,000 of subscriber's original capital in stocks has grown to over $100,000 since 1951

"Starting from scratch" in the year 1925 at the age of 22, I entered into the garage business, in which I continued through the depression years, branching off into the home appliance business in 1937 and continued to operate both until 1945, when I sold out completely.

Having accumulated roughly $30,000 in cash I invested $15,000 in an apartment building, and at the same time began to purchase some stocks. I subscribed to three different investment services, and continued to buy and sell stocks to the tune of $15,000 until 1950 when one of my services advised me to sell out, lock, stock, and barrel, which I did with a total profit of around $5,000 for my five years of trading in and out.

In 1950 I invested another $12,000 in real estate in Miami, Florida. And again began to purchase some securities in 1951 at the same time subscribing to trial offers of different investment services, among which was one of a Mr. E. George Schaefer and one I have been subscribing to regularly ever since. The one service that taught me to quit trading, get out from under a lot of nervous tension, and be able to sleep at nights, while at the same time accumulate some wealth. I am also a regular subscriber to The Wall Street Journal.

I continued to invest in stocks, all speculative, in which, after careful study, I figured had a good chance for growth and appreciation. My portfolio contains such stocks as Cenco corp. @ 3¼, Piper Aircraft @ 3¼, Calumet & Hecla @ 7½, Inv. Co. of America Wts @ 1¾, Ratheon @ 17, Stewart Warner @ 23, Decca @ 15, Nat. Bellas Hess @ 3½, Sun Ray Drug @ 5, Emerson Electric @ 42½, and others that do not show as large a percentage gain, also some that still show a loss, in all I have about $18,000 of my own money invested, and hold 11,604 shares of stock, which was worth $151,000 on Jan. 15, 1960, and is worth $135,000 at this writing, applied against this is $33,300 bought on margin, most of it bought when the margin was 50%. I suppose this was not being very conservative but I sure had a lot of confidence in Mr. Schaefer, and in the last four years I have withdrawn at least $10,000 in cash which leaves me with only about $8,000 of my own capital invested, and keeps the margin high.

My cash & stock dividends amount to more than $4,000 a year and help to pay the interest on the margin account. I also carry $18,000 life insurance, and my real estate holdings have increased to around $50,000. So in my present condition, and with the help of Mr. Schaefer, I am going to ride this bull market to the end, come what may.

It takes a real man to admit his mistakes—here's one

During October 1957, I read your article in the Forbes Magazine about the start of the third phase of this bull market and always respecting a man who stands firm even if alone on what he believes in, I was confident you were right. Being a beginner, young and confident, I felt that trading was my dish. I did very well those first few months and much better than if I had bought and held on. Then the 1958 advance started and stocks I had traded really started to move.

Name	*Amt. of Shares Purchased*	*Range for Year*	*Sold at*
Howe Sound	100 @ $6.00/sh.	6-23	9
Allegheny 6%	100 @ $15./sh.	15-40	19
Standard Packaging	100 @ $13./sh.	13-30	17
American Motors	300 @ $11./sh.	11-90	14
Pyle National	100 @ $42./sh.	40-90	43

I became convinced that your advice about buying good stocks and holding on through a primary bull market trend was the thing to do. As an example, I then bought 1000 shares of Hupp at $5 per share in July of 1958 and held on. Fifteen months went by and getting impatient I sold at 7, realizing a good profit. Five weeks later it went to $13 per share.

Mr. Schaefer, you're right.

Buy good stocks, and hold for the full primary movement.

Well-balanced emotions lead to confidence, confidence breeds success, and this case sounds like a successful trader and investor to me

In my opinion the most desirable and admirable feature of your service is in the fact that your position is clear, distinct and unmistakable.

Right or wrong you burned the bridges behind you. You do not leave any room for ambiguous interpretations and excuses. To me that is important because it is an honest position even if your analysis proved to be in error.

I can understand there are many factors political and economic both here and abroad that could decidedly affect the action of the securities markets. So that one can only be right to a degree or a certain percentage point. So much for that.

I am not a so-called trader, so that your general thinking coincides with mine in that respect. However, the degree of my speculative method is that I invest about 40% of my funds in one stock I single out, and the balance of 60% in about 10 others to get some balance and diversification. My key stock in the last 4 years is I.T.T. (International Telephone). In addition I have some 10 stocks in round lots, that is out of the market. These are substantial corporations such as Int. Harvester, Monsanto Chemical, Ohio Oil, Radio, Union Pacific, U. S. Rubber, etc. As of now I do not propose to sell these stocks under any circumstances.

Your letters in my 4 or 5 years as a subscriber has been very helpful. In fact I have adhered to your advice with virtually no deviation.

Not to be repetitious your service appeals to me because you do not talk from both sides of your mouth.

Here is a subscriber who found it profitable to change from the so-called orthodox Dow theory to our new Dow theory methods

May 1, 1960

I have been interested in investing for over 50 years. My long experience has convinced me that the only satisfactory and profitable way for me to invest is to hold a balanced portfolio of common stocks for long periods of time just as Mr. Schaefer advises. I like to watch my holdings increase in value but I also like to sleep well.

Previous to 1953 I subscribed to and followed an orthodox Dow Theory service. It did well by me in 1942 and in 1949. When it gave a bear market signal June 9, 1953 I sold practically all my stocks and as a result was badly whip-sawed before I bought back into the market again.

It was the result of this woeful experience that caused me to turn to Schaefer's "The Dow Theory Trader." I learned that his was the only Dow Theory service which had not advocated selling. Therefore I wrote him to find out why. It was one of my more fortunate investment moves.

I was impressed with his reasons and the accuracy of his forecast. I subscribed to his service in December 1953 and have been a happy and successful follower of his ever since.

I have been delighted with the uncanny correctness of his long term forecasts since the June 13, 1949 low of 161.60 in the industrial average. He kept his stock portfolio intact in 1953, 1957, and again in 1960 in spite of the fact that orthodox Dow Theory services confirmed a bear market in each of these years.

I have learned to have complete confidence in his advice and follow it for timing wholeheartedly. I have not worried about the market since I took his service and do not expect to worry about it until he starts to worry.

Since 1954 the value of my stock holdings has more than doubled.

I own conservative stocks. Nearly two thirds of my present holdings are defensive issues. Considerably over one third of them are electric utility stocks: American Electric Power, Central & South West, Florida Power & Light, Southern Company, and Texas Utilities.

Other defensive stocks I own are natural gas companies and Liquid Petrolium Gas distributors: Arkansas Louisiana Gas, Petrolane Gas Service, Suburban Gas, and Tennessee Gas Transmission.

The balance of my holdings are sound, growth issues which I intend to sell as soon as Mr. Schaefer gives the word.

A subscriber tells why the Hamilton-Rhea version of the Dow theory needed to be up-dated

I was first attracted to your investment advisory service by your supplementing and updating of the Dow Theory. I deem this the basis of your success and the financial rewards that have accrued to your subscribers.

As a long-time student of the dialectics of history, and fully cognizant of the inevitable mutation in all things in a cause and effect process, it appeared logical to me that the Dow theory, as originally conceived, could not in all respects apply to the stock market in a changed economic and political environment.

The era of laissez-faire capitalism that was in full bloom when Hamilton and Rhea were the leading exponents of the Theory ended with the depression of the Thirties and the advent of the "new deal." A degree of state capitalism now prevails. The state with one hand on the throttle and the other on the brake has implications in relation to the stock market that did not confront Hamilton and Rhea.

Moreover, the state is now specially mandated in its manipulation of the economy by the exigencies of the present international situation and the domestic welfare and monetary policies presently prevailing. In the writer's opinion, it is your recognition and correct interpretation of this new environment and your corresponding updating of the Dow Theory that accounts for your success in determining the primary trend of the market–a vital and basic prerequisite to successful investing.

The false bear signals given by the old Dow Theory and recognized as such by you meant buy spots for your clients rather than being sold out near the bottom. When these signals were given, the old adage "stocks always go home to Wall Street" did not apply

in the case of your readers who followed your advice and maintained a fully invested position.

This subscriber came to visit with me for several hours in 1953. The following investment principles have brought some nice profits to him

As your records will show, I've been a subscriber to your "Dow Theory Trader" financial advisory service for quite a few years. I started investing in the stock market in 1929, and have at various times subscribed to many different financial advisory services. However, they all had their faults and weaknesses, and yours is the only service which I have continued to renew, year after year. In order to put my investments on a reasonably sound and safe basis, I follow the following rules:

(1) I buy only stocks listed on the New York Stock Exchange, thereby avoiding any "fly by nights" or gyp promotions.

(2) I buy only for cash outright, so am in no danger of being sold out if the market takes a sudden and sharp temporary drop.

(3) I buy and hold for the long primary trend of the market and never attempt to buy and sell to catch the intermediate turns of the market. For quite a number of years now, I've relied upon your "Dow Theory Trader" to tell me what the real primary trend is, and to date you have been amazingly accurate.

(4) I accumulate cash in my checking account until your 200-day Investment Line shows the market to be in a buying zone, then place my order. Of course this assumes that we are in a primary up-trend, which has been the case ever since I have been taking your service.

(5) In selecting a stock for purchase, I first study all available information to determine which industry seems to have the best prospects for growth and profits during the next few years. Then I continue my study to try and select the one or two best companies in that industry. For example, in air-conditioning I hold Carrier Corp., in motors it is General Motors, in electrical equipment General Electric, in electronics RCA (with Avco for a kicker), in air transport it is American Airlines, in construction Lone Star Cement, in oils Texaco, in railroads Southern Pacific,

in steels it is U.S. Steel and Republic, in chemicals and liquors National Distillers, etc.

(6) I buy and sell in hundred share blocks whenever practicable, thereby avoiding odd lot charges, and tending to prevent too much diversification.

As an example of what may be accomplished with a small investment, and then holding during a long term primary rise, as so frequently urged in your "Dow Theory Trader," I might mention my U.S. Steel. During the great depression, in July, 1933 I bought just five shares of "X" at $65, buying five more in November, 1939 at 72, and ten more at 67 in November, 1946. As time went on, these twenty shares increased in market value, until in May, 1949 the stock split three for one, and then I had sixty shares. These shares again rose in value and in May, 1955 the stock was split two for one, and then I had one hundred and twenty shares. Since then, as you know, U. S. Steel has reached a high of well over a hundred, and although now down somewhat along with practically all stocks, I'm sure that it is only a matter of time until it again rises well over a hundred, and probably will be split again.

In conclusion, I might mention a case in which an investment has worked out satisfactorily, although not for the reasons planned. Desiring a representation in the movie and theater business, I picked Twentieth Century Fox, largely due to its possession of rights in this country to the CinemaScope and Eidopher systems of movie and television projection. At the time I was working in the General Electric department responsible for most of the developmental work on the Eidophor system, and was quite impressed with its future possibilities. So in May, 1952 I bought Twentieth Century Fox at 17, and in October, 1952 I received an equal number of shares of National Theatres for free, the theater activities of the Corporation being split off due to a Court order. Of course even to this day the Eidophor process has not proved commercially successful, but meanwhile oil was discovered on the studio properties of Twentieth Century Fox, and has been bringing in quite a bit of revenue. Partly for this reason the investment has worked out very well, and in accordance with your advice in each weekly issue of the "Trader," I'm still holding it and all my various other investments, some of which were mentioned in the foregoing.

Always interesting, and a good profitable interest

I started buying stocks in 1934, with 10 shares of Am. T & T. At first I looked for stocks paying 6% in dividends, and rated not lower than B. I always look up a company, in several financial books and papers that I take. Fact is most of my reading is along the financial lines. I take Schaefer's and four other financial services. If a company cuts or skips a dividend I find it is safer to unload it right away, and find another stock. I keep a list of stocks that I watch. The following are some of my results:

In 1940 —	20 shares of Allied Chemical	$3261.30
1960 —	172 shares of Allied Chemical, value	8600.00
In 1940 —	90 shares of Briggs & Stratton	$3777.85
1960 —	540 shares of Briggs & Stratton, value	30240.00
In 1942 —	35 shares of Beneficial Finance	$ 433.12
1960 —	135 shares plus 7 sh. pref.	3510.00
In 1942 —	10 shares of Safeway Stores	$ 397.50
1960 —	99 shares Add $84 with st. Rts.	3960.00

Sometimes as with Firestone which I bought in 1948 and held to 1954 selling 200 shares, cost of 100 shares original $4931.90. Selling price $19,800.14. That is the way it goes, always interesting, and a good profitable interest.

Here's a paper profit of $120,000 on Zenith

In accordance with your request of April 27, 1960, I am furnishing the following case history:

I have been interested in the stock market for many years, having purchased many different securities, and have been guided by the advice of many different business magazines and market counselors to whose service I have subscribed, resulting in some gains and some losses, with overall small gains. The trouble with such advice is that it is sometimes right and many times wrong, especially regarding long term bull market trends, so it is never possible to secure really large long time profits. I believe that only a very small percentage of short term traders ultimately come out ahead. Persons I know who have accumulated considerable wealth from this source have done so by purchasing growth stocks at moderate prices and then holding them for many years. Even averaging down upon the advice of well known financial publications has sometimes resulted in eventual loss.

During 1953 I purchased some U.S. Steel, Zenith Radio, Studebaker, Masonite, Olin-Mathieson, National Steel, Parke-Davis, Rayonier and International Mining & Chemical, all upon the advice of a well known publication other than yours. Later on I learned of your service and have since subscribed to it. Between 1953 and the present time the other services have vacillated many times, and one well known service has been bearish for the past three years. Upon your advice that we have been in a long range upward trend, I have during the past two years sold all stocks other than Zenith at a profit of about $15,000 and purchased additional shares of Zenith. Most stocks sold are now selling below sale prices, whereas Zenith is selling above purchase prices. I know that this action is contrary to all investment advice. However, I took this action after carefully studying the market action of this stock and learning of the rapid increase of sales and earnings. My investments in this stock average $41 a share and I now have a paper profit of around $120,000. Upon your advice I expect to keep this stock with a view of selling at an increased profit later on this year or early next year.

Use of "put" and "call" options led to position in growth stocks

This is probably a different letter than you will receive from most readers of your weekly service. I have benefited from your service in an unusual way.

Most investors will report great gains by buying stocks fairly low and riding the great bull market trends. I was fairly unfortunate in not having a great amount of money to invest during the start of the third phase of the bull market in 1958.

By reading your weekly letters, especially during April, May, and June of 1958, I was convinced that you were accurate in predicting the coming advance of over 200 points in the Dow-Jones Industrial Average.

The small amount of capital which I had went into Options that were good for six months. Naturally, all of the Options did not materialize into large gains, but the large gains more than compensated for my small losses in the Options that did not show great gains.

At present, I have a portfolio that consists of growth stocks

and I always maintain a few "Puts" and "Calls" which may or may not show great profits.

I have been a great supporter of your service and have sent many new subscribers to your service. Knowing the trend or whether we are in true "bull or bear" markets makes for greater profits regardless of how good or bad a stock is at the time of purchase.

Good luck in your new book and you have my permission to use all or any part of this letter. I met you in San Francisco during your 1959 stay and I hope you will revisit and speak again in 1961.

From $4,000 to $60,000 in growth stocks since 1954

I have been in the market since 1954. I started with $1,000 and in 1956 added another $3,000. My account is now worth about $60,000. A great deal of my success was due to you. I bought stocks on your recommendations, sold some, held some, and bought others outside of your list. Besides following you I study the market on a daily basis on my own and use charts, odd-lot figures, etc. I find that your method is the best. That is to hold for an entire bull cycle and buy more on dips. I followed you when you alone were bullish in October, 1957. Some of your logic is amazing. I guess it is because you also study the psychological side of the market. Some of my selections that I have purchased are: Zenith, General Tire, G.E., Motorola, Pfizer, Hoffman Electronics, Beckman Instruments, Spiegel, Philco, American Metal Climax, Fairchild Camera, General Dynamics, Std. Oil of New Jersey, Minn. Mining, Min. Honeywell, duPont, and Proctor and Gamble.

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25 shares of Sears Roebuck split twice—value now $14,994

I am in receipt of your letter of April 27, and glad to hear from you. I have been a subscriber to your service for a number of years. I have other financial magazines and another service, but somehow, it is yours that I have depended upon mainly. When others would be preaching "sell," you did not let it phase you, and assured us it was only a correction in the long bull market.

I might say that in the main, I have found the most money to

be made by sticking with good growth stocks for the long pull. As an example, we had a little extra money some years back and we bought 25 shares of Sears Roebuck. I forget what the price was, but it wasn't bad when we bought it. It paid a good dividend, and we put it in our bank box and just held it for income, more or less forgetting about it. Then, in not too long a time, they split the stock four for one, making our 25 shares one hundred shares. We held with it and then in not too long a time they split again, this time three for one, making our shares now 300 and they also in the meantime issued six shares as a stock dividend, making the total 306 shares, which at the present price of about $49, makes the stock worth $14,994.00. Now this is just one example of what we find good stocks will do for you over the long term.

Read this—and then decide for yourself how profits are made in stocks.

Your letter of April 27 received and it is with great pleasure that I am attempting to describe my experiences with your service.

Before I go any further I want to say that the name Schaefer and the date October 19, 1957 I shall never forget. I have been a subscriber to your service since then and will never be without it.

I am 69 years old, and retired for 10 years. When I went out of business I knew nothing about stocks. In the years 1951 and 1952 I bought some stocks and sold them with the usual little profits of a few points by advice of my broker. This proved to be not very successful.

Meanwhile I made it my business to read different services and tried to teach myself something about the market.

After 1953 and 1954 I bought some stocks which I felt were good investment only, and kept them. I accumulated a handsome profit on paper of course.

Everything went fine, until June 1957, when the market stumbled downwards and all the profits I had began to melt and by the middle of October, 1957, the profits of about four years went out of the window, so to speak. About $30,000. Quite a sum! It was then that my broker advised me to sell out, while I still had my investment intact.

Here is where E George Schaefer came in. I read, if I am not mistaken, in the middle of October, 1957, your advertisement in the *New York Times* and *Forbes* magazine. I mailed a check for $3.25 as a trial subscriber, and it proved to be my *best investment* ever. Since then I became a regular subscriber and advised some of my friends to do the same thing.

I received your first letter, October 19, 1957, and read on page 931 under the caption "Turn Near" and October 26, 1957, page 933 "Selling Climax Over."

Then I made up my mind not to sell a single stock, and told my broker not to mention the word selling anymore.

After six months, about May or June, 1958 not only did I recover all the losses of about $30,000–but, I went ahead quite considerably.

On April 1958, on page 986, you mentioned for the first time, American Motors, and later on, American Machine and Foundry. Well, on May 1, 1958, I bought 300 shares of American Motors at $11 6/8. I soon got a 5% stock dividend and now I have 945 shares which pays $945. on an investment of $3600. I had 100 shares of Am. Mach. Fd. which I bought a long time ago at $23 6/8 and bought another 100 shares upon your advice at $35. Today I have 400 shares (after the split). Something for the books.

What is more, because I did follow your advice on not selling any stocks I kept my stocks which I bought in 1953 and 1954, among them are: 150 shares of General Tel. @ 21½, 200 Republic Steel @ 22, 400 Reynolds Tob. @ 18½. Prices and the amounts are after the split. I have a few other shares which are just fair.

Thanks to Schaefer and nobody else!

Every time I traded, I was hurt financially. No more trading for me.

In response to your letter of April 27th I wish to convey my sentiments in regards to your fine investment and stock market service.

I am sorry that I didn't learn about Schaefer Investment Service long before I did. I would have spared myself a great deal of worry and confusion by following your advice in your weekly report.

I have followed your plan of diversification and I have excellent results following your advice. Every time I disregarded your advice and traded, I was hurt financially. No more trading for me and I am following your advice to the letter.

With the market down almost 100 points on the D-J I feel confident that your advice in your weekly report will keep the ship on the beam so to speak.

I made my best buys in the stock market in 1957 and 1958 when you were advising to buy and buy, which has proven you were correct. Now in 1960 you are advising to stay fully invested, and I am sure you will be right again.

In conclusion, I may add that in following your advice, I have put my portfolio in a most satisfactory position which amounts to about $375,000 and I am sure that any one subscribing to your service can do the same thing.

You can use any part of this letter for publication if you so desire.

Fifty to sixty per cent capital gains in two years.

My records indicate that I commenced subscribing to your service in January of 1958. Before that time I had tried many services and found them unsatisfactory, either in that they did not meet my requirements or that they just did not give me what I wanted in a market analysis.

I first read your ad in the *Financial World,* and decided to try your service in the hope that it would be what I was looking for. I wish to state that it has been just what I wanted. Your explanations of market conditions have been very clear, and your recommendations of stocks to purchase have been excellent.

I also like the idea that you yourself have a speculative and investment account as a further guide to go by.

I have followed your recommendations with excellent results. Commencing in 1958 and to the present time I have realized a capital gain of between fifty and sixty per cent on my invested funds.

No retirement worries here—company pension, Social Security, annuities, plus profits and income from stocks.

Over the years, I have followed a program of investing the

small savings I was able to accumulate from time to time in common stocks of what I considered to be growing and well-managed industrial concerns. In doing this, I followed carefully the principle of diversification in order to minimize the risk and to spread my investments over more opportunities for growth and profit.

In most instances I have continued to hold the stocks purchased, although some switches were made when the situation seemed to warrant the change. In no case did I indulge in so-called in-and-out trading for the purpose of making a quick profit or of trying to out-guess the market.

All of my purchases were confined to stocks that were paying cash dividends, and these dividends were used for investment in more stocks.

As a result of this program, my stock investments have grown into what is now a sizeable amount, which provides in cash dividends an important supplementary source of income to my company pension, social-security, and annuities, all of which together enables us to live very comfortably, including much travel, during my years of retirement.

To illustrate how this stock investment program has worked out for me, I give below the performance record during the time I have owned them of seven stocks selected from my present list, showing number of shares purchased; date of purchase; total cost, including brokerage commission; number of shares now owned, due to stock splits and stock dividends; present value as of May 5, 1960; cash dividends during 1959, and per cent return of these dividends on the total investment in each stock.

Name of Company	*Year Bought*	*Shares Bought*	*Cost*	*Now Owned*	*Present Value*
American Cyanamid	1937	25	$ 789.38	100	$ 5,400.00
Thompson Products	1939	25	632.25	132	8,085.00
Dow Chemical	1950	25	1459.37	85	7,628.75
Libby-Owens-Ford	1950	25	1604.63	100	5,287.50
General Refractories	1950	25	630.32	142	3,532.25
National Lead	1950	25	1072.06	76	6,859.00
Eastman Kodak	1957	25	2606.43	50	5,400.00
			$8794.44		$42,192.50

Increased value 380%

1959 Cash dividends on above $1,167.60 ..... Average div. yield 13.4%

It is obvious that these investments have proved to be far more than a good hedge against inflation and a good return on my investment.

I think I didn't do too badly since I had to start from scratch. ($24,500 to $104,000.)

Back in 1934, I wanted to learn something of the stock market and how to invest money which at that time I didn't have. I ordered a complete correspondence course in the stock market; this course included the Dow Theory, which I liked best of all, but there are a few others that I use. I also keep charts on a number of individual stocks and the averages.

I think keeping charts in conjunction with the Dow theory is very good, if you use them and study them, in the same way as the Dow theory.

My first venture into the stock market was in 1938. I bought fifty shares of Pure Oil, which cost me five hundred dollars; all the money I had. I still hold this stock, which has grown to one hundred shares. The dividend I collected is more than the stock is selling for today.

Then in 1949 I started accumulating in the company I am working for. I bought some each year up until 1957. My profit on this stock alone is $90,000.

I wanted to buy other stocks, but before buying I wrote to quite a number of services including E. George Schaefer's. Since I couldn't put as much time in the stock market studies as I should, I subscribe to Schaefer's service.

I hold the following stocks: Admiral Corp., Chrysler, U.S. Rubber, Pure Oil, Jupiter Oils, and Daystrom.

I haven't sold any stocks, and I am holding on. The profit and dividends at this time is $104,000 and the total invested is $24,500.

I believe in putting some of our money in over-the-counter stocks. There is where the real growth starts. I think it is safer to buy these instead of cats and dogs.

I think I didn't do too badly, since I had to start from scratch.

To improve one's self in investing is not easy, but the rewards are sweet.

My husband was a trader on the Stock Exchange, his only profession.

In 1956, after his passing, I found myself owner of his estate, a great deal in common stocks. Though I had worked with him, I was at a loss, what-to-do, when I ran across Mr. Schaefer's advertisement, a long one. I read and reread it, and right there I knew his method had been my husband's, to ride the trend, and he had been a very successful trader.

The following is a copy from his book, I still own the stocks, thanks to Mr. Schaefer, otherwise in 1957 I surely would have sold.

		July 1st 1948 bought	
300 shares	Standard Oil of Calif.	@ 72	$21,600.
300 shares	Bethlehem Steel	@ 37	11,100.
200 shares	Sinclair Oil	@ 30	6,600.
100 shares	Pure Oil	@ 37	3,700.
			$43,000.
		May 9th 1960	
1469 shares	Standard Oil of Calif.	@ 42	$61,698.
1350 shares	Bethlehem Steel	@ 44	60,500.
200 shares	Sinclair Oil	@ 40	8,000.
200 shares	Pure Oil	@ 30	6,000.
			$136,798.

In 1956 I got a subscription to "The Dow Theory Trader" studied it, all of the seven technical Dow theory considerations, all the writings sent to me, and the weekly letters. From there I went to many financial institute courses.

In 1957, being a novice, I was very frightened, but I didn't deviate from Mr. Schaefer's guidance. I bought stocks with my cash at the low of the market; it took courage, when we were advised to sell, I bought investment stocks, that I still own.

In 1958 I decided to trade some; bought Georgia Pacific, Sun-

shine Biscuit, South. Calif. Edison, American Can, General Tires, Container Corp. for $26,916. Cashed in $8,395 in a year.

Only one stock I sold "Lone Star Cement" with a loss of $445.

Weekly with "The Dow Theory Trader" I renew my strength in the conviction that Mr. Schaefer is right, in all his teachings, "God bless him."

To be successful in investing in the stock market, one must work at it, all the time, never rest.

To choose a method, to have the strength of character to keep it, regardless of what others do or say, and to work at improving it. It is not easy, but the rewards are sweet. I work alone, I take advice, but make my decisions alone. It is hours and hours of lonely work.

My own (E. George Schaefer) case history and what I plan to do in the years ahead.

As all who have read this book will recall, all of my original capital went into getting my advisory service started from 1948 until 1952. Suddenly in about mid-1952, I began to show a profit in the business and began buying stocks with the extra money.

I bought a number of diversified stocks each year from 1952 on until early 1960, mostly on reactions as the bull market progressed. This has been my plan of accumulation in harmony with the primary bull market underway. With the reaction in early 1960, my buying program was completed. Occasionally over the years when I needed extra money for the business, for taxes, or for some other reason, I sold a few stocks on the way up. As sizeable profits developed in a few of my holdings in 1955, I bought a $40,000 home, which was paid for largely by long-term capital gains from the sale of several stocks.

I own the business property here at 3636 Salem Street, have $150,000 ordinary life insurance, and have money in three bank accounts. All my furnishings and equipment are fully paid for. I am 52 years old, have a daughter going to Northwestern University, and a son employed in the investment department of a bank in Chicago.

From reading my technical and Dow theory studies in this book, you are no doubt well aware that I believe this major bull

market since mid-1949 to be in its third and final up-phase. One more big upmove is expected. I am uncertain just where the final top will be. It may come in late 1960 or in 1961, as I see it now.

Most vivid among my research studies is the fact that all stocks don't top out at the same time in a major bull market like this one. As the 1929, the 1937, and the 1949 extreme tops came for the Industrial Average, the fact remains that at those peaks only about 40% of all stocks were near their highs while the other 60% were lower. In other words the high areas of 60% of all stocks had come from 6 to 12 months before. Therefore, it seems wise to me to begin taking profits slowly, on strength if possible, from here on, before the final top for the Industrial Average has been reached.

In late 1959 and early 1960 I began to take some profits in a few stocks that already had sensational profits. One stock I sold for roughly 18 times what I had paid for it, another about 10 times, and several more around 5 or more times their original cost. These total sales represented about 10% of my holdings, but the important consideration is that I have begun to sell on strength and to salt away some profits.

As more strength develops thru the latter part of 1960, I plan to sell about 40% more of what I hold and I hope to let go of the final 50% of the stocks in my portfolio in 1961. I hope to be out of all stocks within a year, regardless of where the market is. Thus, my procedure is to take profits on strength from here on in this 3rd and final phase—to sell on strength as it arises, and to be satisfied.

Right now, I own shares in 63 companies listed on the New York Stock Exchange and on the American Stock Exchange. This is a well-diversified list. I am not going to try to guess which ones will go up or how much they might go up. When outstanding strength appears in any of them during the coming year I will sell on that strength and be happy regardless of how high they may go later. I will be more than happy to pay Uncle Sam his due. Since I do not expect to bat 100% on all I hold, near the end of my gradual distribution process I expect to take some losses. My feeling is that if we can make good profits on 70% to 80% of all our holdings, we should be satisfied and happy. No one is perfect,

so I don't expect myself to be. Then, too, the fellow who buys my stock is entitled to a profit, so I don't ever try for that last dollar in gains. No point to worry if you have your share. I'm going to be satisfied.

What will I do with the money? Well, from reading Chapter XIX you know I expect a major depression to follow this great boom. I am going to be patient, put my money in the lock box, perhaps buy a few short-term government bonds or notes when their yields get high enough, and wait. At some point along the line in later years, I don't know exactly when, I believe that my studies will tell me when the next bear market has hit bottom and where to begin buying stocks again. It's what we make from the bottom of a bear market to the top of the next bull market and have left at the bottom of the next bear market that counts. Coming out ahead in a complete cycle is the goal.

My future investment plans and procedure, as you have learned in these chapters, are all tied in with an investment philosophy that began with Charles H. Dow, and that has been improved over the years. You too can develop your own philosophy and become successful in the market. This takes practice. In the next and final chapter of this book, I will give you my ideas on how you may do this, and I hope that these suggestions will be helpful to you.

Chapter XXI

HOW TO PRACTICE THE ART OF INVESTING

"The key to stock market profits is in understanding: the market, the economy, mass psychology, growth stocks, and yourself. To open the door to success, however, requires practice."

So far in this book I have discussed my New Dow Theory, the practical tools used in my studies of market trends, how the outlook for the economy fits into this picture, the psychology of the crowd, the principles used in selecting individual stocks, what I believe to be the most profitable investment procedure, and the underlying psychology of the individual. Also, I have given you a few of the many case histories of successful investors who have made great profits through their use of the methods outlined.

Having read this far, you have gained a deeper insight into the theoretical aspects of the art of investing in the stock market. You now have a knowledge of the methods and the philosophy I have employed to help an estimated 10,000 or more investors to profit in stocks since 1949.

This final chapter may be the most difficult one for you to absorb. Don't give up, however, The things I will say in this chapter may disturb you, but they are being said in a spirit that will make you think and that will help you to profit.

In this chapter we will take the step from theory to practice. If you are not a highly successful investor: if you do not have big profits as a result of the major bull market in force since 1949—then something is wrong. *What can you do, right now, to become successful in future years?*

The first thing I would advise you to do—and tonight might be a good time to start—is to sit down, perhaps as husband and wife after the kids are in bed, and do some plain, honest thinking about how well or how poorly you have been doing in the stock market, and why.

Now you are confronted with the problem of doing something about your own situation: to better yourself. Being human, you now will begin to sense a feeling of uneasiness, of conflicting emotions, about this problem. Don't get upset about it. That feeling is simply the struggle taking place between your *positive* or constructive emotions which are saying that you can improve yourself and your *negative* emotions of fear, uncertainty, anxiety, and worry that are saying to you it *can't* be done.

Right at this point, then, let's begin practicing: be positive about it in this way. Favor your *positive* emotions. You have already favored them by taking the first step: reading this book. After all, they are the favorable emotions that stand ready to work and to make money for you. So let's help them along some more. Take the second step to reinforce your constructive emotions. That way, they will become stronger and stronger. Begin this instant to practice the art of investing. Feel the power within you. How? Let's put the theory we have discussed thus far into a sound and sensible practice.

You will find that as in the mastery of any art, such as painting, music, writing, teaching, athletics, dramatics, or selling, there is much more to be learned by practising it over long periods of time. Investing in stocks follows the same pattern.

To be a success in the stock market gives an emotional satisfaction. It is a personal experience. Almost anyone can have it, but it will be only for himself. When it comes to you, only you will derive the full flavor of the emotional feeling of well-being and the glow of contentment that comes with it. This is true of all the arts, and all scientific achievements.

To make the grade as a sucessful investor among today's millions of people interested in stocks, you must climb into the upper 2%. This can be done, step by step, by almost anyone who practices to do better himself and who devotes enough of his efforts towards that goal. But the steps in the ladder of success can only be taken by yourself. The strength to climb will come from your *positive* emotions.

You must realize and understand fully that you are an individual within yourself, with your own heredity that goes back many generations, with strengths and weaknesses within your emotional and mental capacity, and a training from early childhood on, all of which are entirely different than anyone else. I believe it is for these reasons that I have never known two investors who thought and felt exactly alike on the countless economic and financial problems that confront them at all times in the stock market. This endless difference of opinion is why for every transaction shown on the ticker tape there is always a buyer and a seller, or two entirely different viewpoints.

Therefore, study your own personality. Your own personal method of climbing to the top may be slightly different than someone else's, but the steps to the top must be climbed in one way or another, regardless, before success can be yours. Probably, you will need to practice, in one way or another.

What is your situation? How can you practice to be a successful investor? What should you do? Here are a few suggestions. You may well find your answer in the pages which follow.

1. *Learn to concentrate on market research.* The ability to concentrate upon the fundamental truths about investing is all-important. Study the methods, the philosophy, and procedures of successful people. Do your research in a quiet place and in a relaxed manner. Read this book, and other informative and worthwhile writings on the market, over and over again. Try to dig out the truths involved in any market analysis and then correlate them with others you have run on to. To concentrate is to be at peace with yourself and to be fully absorbed in a project or a subject at the same time. The ideal in concentration is to be working or thinking without talking, smoking, eating, drinking, listening to the radio, or being nervous or fidgety in any way.

2. *Allow yourself to become fully devoted.* To be fully devoted to the art of investing, the stock market should be a subject of supreme importance to you. The majority of successful investors whom I have met are people who are so keenly interested that they devote their entire lives to it. Their interest and curiosity about market affairs is always there, or is easily aroused. Just as a painter can't resist wetting a brush and mixing a few colors when he sees a beautiful scene or object, so the practice of investing brings forth a quick automatic desire to analyze, to draw con-

clusions, and to anticipate as changing market conditions attract the investor. If you want to master the art of making money in stocks, allow your interest to grow, and become fully devoted to following and analyzing all the aspects of why or why not a profitable situation may or may not be at hand.

3. *Plan your program for the years ahead.* In my conversations with investors all over the nation, I find that the truly successful ones have their plans mapped out in a mental state of suspension years ahead of time. They generally know about what they might expect the market to do, and roughly where they plan to get in or out. Their thoughts and tentative procedures are based upon expected technical conditions, likely business events, possible market trends, or other economic contingencies. The successful investor's mind is generally in a state of relaxed alertness and open to any changes in the economic or technical picture as they may occur.

Under my New Dow Theory, we are in a position to make predictions regarding the primary trend, to observe what might happen under the various technical studies I have outlined to study investment procedures, mass psychology, and to control our own emotional thinking to a large degree.

Thus, we can plan for profits to come in a constructive manner and work out an investment plan and procedure that will become profitable over the years. When the right time for employing investment funds finally arrives, as discussed in our chapters on market trends, it will be advantageous and profitable to be ready with a well-planned program.

4. *Learn to be patient.* Anyone who has ever tried to master a profession or an art knows that if you want to achieve anything worthwhile it requires patience. If one is after quick results, failure is almost certain. And, the stock market is no place for the man who is short on patience. I would say that since 1949 the lack of patience has cost investors more in profits and income than any other single factor. While we might assume that this is because today's businessman is always in a hurry, dashing here and there in an impatient manner, it is interesting to note that seemingly men were just as impatient in Dow's time. Here is an excerpt taken from one of Dow's editorials written in about the year 1900 that certainly points in that direction.

"If people with either large or small capital would look upon trading in stocks as an attempt to get 12% per annum on their money instead of 50% weekly, they would come out a good deal better in the long run. Everybody knows this in its application to his private business, but the man who is prudent and careful in carrying on a store, a factory or a real estate business seems to think that totally different methods should be employed in dealing in stocks. Nothing is further from the truth."

5. *Absorb anything which is a market truth.* As you practice the art of investing in stocks, remember that you are the only person who can make yourself wealthy in the stock market. Your thinking will be the key to your market success. Correct thinking invariably leads to correct action. Therefore, make a practice of looking for, analyzing, and then absorbing all market truths.

For example, allow yourself to give serious thought to the all-important concept: *ride the primary bull trend in a diversified growth position as long as market conditions remain bullish for the long pull.* Then, when the primary trend for stocks begins to change from bull to bear (or from the upside to the downside for the long pull) sell out and remain in a liquid position until such time that your research implies strongly that a new primary bull market is about ready to begin again. Remember that the primary trend is a force all of its own. It starts, goes on, and finally stops, regardless of what some analysts might believe, of what the government might do, of present business conditions, of population trends, or of any and all illusions held among the public. I can't emphasize the many truths in connection with the market's primary trend too strongly. You must determine for yourself, however, its direction for any given market by means of your research and technical studies.

Another truth is that: *the odds are against the in-and-out trader who expects to do well in the market over a period of years.* Temporarily it is not uncommon to find traders with attractive profits in a bull market. However, as time wears on and as emotional upsets occur, trading profits have a way of going down the drain. Years of experience finally reveals to the great majority of investors that is is very difficult, if not impossible to call intermediate reactions to a primary trend over 50% of the time and soon enough to profit on them. Then, individual stocks often go contrary to

the trend for awhile, which complicates the trading picture further. And finally, because traders are human beings, they are emotional. A man's emotional make-up is his greatest enemy as a trader. Since the emotions are contagious and powerful, fear is most likely to keep him from buying at the bottom and optimism probably will keep him from selling at the top. Also, since the analysts and financial writers are human, the trader constantly is subjected to a greater volume of wrong advice on what to do in the market than what is right.

A truth regarding human nature is that: *most investors take a highly emotional attitude regarding their own stocks.* All too often, they wait until the news is optimistic and rosy before buying. This is generally near a top, just before a correction sets in. Over the years since 1949, I have stressed buying on reactions and holding on to a well-diversified position as the primary bull trend resumes. Yet, I have found that the emotions generally rule. People will wait for business to get good, or for the averages to climb to new highs. Then their emotions tell them to buy, often at precisely the wrong time for a profit; and, instead of assuming a well-diversified position, the emotions will dictate the purchase of only a relatively few issues that have a special emotional appeal at the time. All the way up, then, since 1949, many people have missed the boat by becoming too interested in just a few stocks after a good run-up, and then becoming frustrated and fearful, sometimes dumping them after a good decline. Near the end of a major bull market, however, people remain bullish because they are emotional about the stocks they own. Many refuse to sell when a new bear market sets in.

When riding a well-diversified growth position in harmony with a primary bull market underway, another truth to remember is: *since all stocks don't go up all the time or at the same time in a bull market, it becomes illogical to expect every stock in your diversified position to show a profit at all times.* It must be assumed that anyone who is in the market knows that there is always a risk involved. Diversification in growth stocks, bought during reactions in the early stages of a primary bull market serves the purpose of reducing that risk. But the investor is never completely free of all risk in the stock market. And too, he must give the primary bull trend time to work for him. A well-diversified

growth position, a healthy primary bull market in its early stages, and time will generally result in a profitable over-all position as the bull market expands, but stocks so held may vary considerably in the amount of profit they show. In my experience with investment positions, I have found that almost invariably a few stocks will show fantastic gains, if profits are left to run, while a few may show only small profits or even losses.

As you study the market and allow its truths to penetrate your subconscious mind and your emotions, re-read the various chapters in this book that interest you and decide for yourself what is the truth. In doing this you will become stronger in your market philosophy, and your investment activities should become more profitable.

6. *Discipline yourself to think constructively.* If you want to get ahead as an investor, you must practice discipline. To progress step by step in your own development, according to the principles outlined in these pages, requires that you do the job of improving yourself as an investor in a methodical, disciplined way. If you only do your research, study, or reading when you feel like it, or when you have nothing else to do, the odds of your becoming a truly successful investor are very small. The investment of funds is a full-time job. It demands many long hours of hard work at study, research, and planning ahead. Opportunities for profit in the stock market are generally the result of disciplined work and constructive thinking.

Once you have made a decision to buy certain stocks, have given the order to your broker, and have taken a position in the market, the success of that position eventually may depend largely upon the way you are able to discipline your thinking under the stress of mass psychology, and reacting markets. In the great bull market since 1949, for example, I have observed the way countless investors have taken positions all the way up only to see that they were unable to follow through and to discipline their emotions when the going became rough. At the top of this long primary bull market since 1949, too, the time will come when long-term investors will have to discipline their thinking. Otherwise, they may get carried away by the psychology of the crowd. They will have to discipline their thinking and say to themselves—*I am satisfied. The time has come for me to sell. My money has earned*

good profits and income for me all the way up. Stocks are no longer worth the fantastic prices they bring nowadays. I am not in the stock market to make all the money in the world. I don't want that last dollar of profit. Let the man who buys the stock I sell him make that last 5%, 10%, or 15%. And so on. Thus, the ability to discipline yourself in bull or bear markets is very important to you as an investor, and discipline must be practiced, constantly, for profits in stocks.

7. *Try to understand your emotional self.* One of the most difficult problems of all is to see yourself as you really are. It takes much practice to do this. Having lived with ourselves throughout the years, we take our own personality for granted. We can see at a glance what is troubling the other fellow, but we become so accustomed to our own thoughts and just being ourselves that we can see nothing wrong. Yet, often when our past record of investing is plotted carefully, it becomes apparent that an emotional problem exists. There is usually some emotional reason why losses were taken: why this or that stock was purchased at a high price and then sold at a much lower price: why a bull move was missed entirely, or why stocks were held all the way down in a bear market.

Psychologists tell us that sometimes emotional disturbances make themselves known to us in our dreams. That is because our subconscious mind never sleeps. As a rule, early childhood and later experiences have "set" emotional patterns of fear, hate, worry, anxiety, and so on, that go through life with us. Any slight disturbance in the stock market, or any stimulant in the news, can touch these patterns off—and the investor finds himself getting emotional and doing costly things in the market as a result.

Think back to what might have happened in your life, especially in your early youth, the emotional upsets you had, why you had them, and then tell yourself how perfectly ridiculous it is to hang on to these same patterns in your subconscious mind over the years. Try to get your subconscious to tell the conscious what the trouble is. Concentrate. Be relaxed. Stretch out on a couch if possible. Allow your subconscious thoughts to come to the surface. Do this several times a day; and the chances are excellent that you will come to know yourself much better emotionally over a period of time. And this practice, in turn, will improve your judgment in the stock market.

Remember that the emotions of the crowd are contagious. When for example the majority of people become fearful, the news is bad, and the services get pessimistic or bearish, practice trying to observe how nature takes its grip among the public. Nature had a purpose in this when, ages ago, it tried to preserve whole communities of people from danger. Just the opposite extreme is reached when the crowd turns optimistic and exuberant. Today, the stock market community swings to and fro in its emotions in a similar manner, and you, as an investor, must practice not to allow yourself to be a part of that emotional pattern. Don't permit your emotions to become "set" or "frozen" when mass psychology is bearish at the bottoms or bullish at the top. When you accomplish this, then all that you have learned in this book and other constructive market studies you have pursued will help you to analyze the situation more correctly, and therefore, will help you to profit.

8. *Accept trained and well-qualified guidance.* As each individual investor learns his own particular emotional background and tendencies in the market, then he is in a position to plan and to practice his future course of action for the improvement desired. The goal of any investor in the stock market, of course, is greater profits and income. How can you take a step in the right direction?

Sometimes just reading and studying the philosophy and procedures of successful analysts does the trick. Others get their greatest benefits from being in close contact with successful investors who are willing to share their views and offer guidance in the market. Still others make a study of the advisory services and pick out one or more that furnish the guidance needed.

Where investors are extremely emotional or neurotic and are in need of considerable help in obtaining the desired corrective adjustment necessary to profit in the stock market, I would suggest that any in this group inquire around to find out who might be a helpful psychoanalyst or psychiatrist to probe into and help solve the problem involved.

9. *Expect to learn and to benefit indirectly, not directly.* No one ever became an expert, or a success, over-night by learning the facts in a relatively new field to him quickly or directly. Sometimes that might seem to be the case, but the truth of the matter almost always is that the successful person has been working in

that area or direction for years, and then the stumbling on to some new ideas, discoveries, or new developments finally brings him into his glory. Often the indirect results of what he has been doing bring him his greatest successes later in life. In my own case, for example, although I went to school to become an engineer, my sideline interest and hobby finally taught me things about the market which became so important to me that I began publishing an advisory service. This same round-about way of doing things also applies to making money in stocks more often than not.

I have seen large numbers of sucessful investors who have learned valuable information about stocks, indirectly so to speak, through their contacts, reading, and study in other fields of interest such as medicine, chemistry, automation, banking, insurance, merchandising, electronics, politics, and so on. When such information is related to a future growth possibility and is correlated with the market studies, psychology, and investment procedure discussed in the pages of this book, it may lead to sizeable future profits. Therefore, as you interest yourself in a broad, diversified line of subjects, practice by keeping an eye open for something that has growth possibilities. Turn it over in your mind and allow it to register in your subconscious. When the market is right and you find that a certain company is developing along this same growth line, you will be way ahead of the fellow who hasn't learned about it, indirectly, before.

In other words, practice the art of investing by learning about many things. As time goes on, you will find that your investment program will benefit, indirectly. By the same token the methods, studies, and philosophy that have been published in the chapters of this book will help you to profit by the indirect route. If you will study them thoroughly, the truths discussed will penetrate your subconscious mind and your positive emotions. Keep this book handy at all times, near your easy chair or on a shelf close to where you retire each night. Your subconscious mind will demand the truth and straight thinking. Therefore, I think it is reasonably sure that you will find yourself trying to satisfy your subconscious mind by referring to what has been said here time and time again over the years. Thus, the indirect way which includes the right kind of contacts, reading and study today becomes most likely to help you, your family, and the

people in whom you will be in a close association with for years to come.

In my opinion, the indirect route is the way to learn the truth about investing, to free yourself of your greatest enemies—worry, fear, at the bottom, and over-confidence or greed at the top. Also you will be less inclined to allow business news and systems to rule your decisions in the market.

As an indirect result of your research and study, you may find yourself diversifying in future growth issues when prices are low and letting profits run as so many people who have sent me their case histories have done while the current primary bull market has been underway. Finally, other ideas such as saving money, investing, and teaching your wife (or husband) some of the things you have learned will all serve to make you a more relaxed and secure individual.

10. *Train yourself to be a sucessful investor.* As I conclude this book, allow me to emphasize that today we are in an age of research and new developments that stagger the imagination. You, as an investor, are likely to see some major "break-throughs" into new fields of thought in the investment business that will benefit you in the future.

Besides an ever-increasing number of new technical tools to help you to diagnose the modern-day market's future probabilities, the field of mass and individual psychology now opening up promises rich rewards. The mind of man is fascinating. It is a vast treasure house. It stores up huge deposits of wisdom and energy down deep in its subconscious areas. When we realize that the average man uses only 10% of his mental ability in his conscious thinking, then it becomes apparent that the other 90% is down deep in his subconscious mind, is seldom used, and man's mental capabilities can be improved many-fold.

Ninety percent of most investors' mental ability lies dormant most of the time in the subconscious mind. When we understand that the conscious mind can improve the subconscious mind and can bring the subconscious into profitable action, or vice versa; and that our emotions have their switchboard deep within the subconscious—then we know it becomes practical to make better use of all three in our mental facilities to do a better job in constructive investment thinking.

Knowing this, you can, for practical purposes follow procedures

to profit in stocks and thereby remake yourself as an investor. In the future, it will be perfectly ridiculous for the studied investor to allow his *negative* or unfavorable emotions (such fear, worry, anger, anxiety, jealousy, exuberance, or greed) to cost him money and to rule him. Man lives by his subconscious mind. Why allow it to be a storehouse full of negative and destructive impulses to our investment plans when it might just as well be a reservoir for positive, money-making ideas?

Close your eyes. Relax. Concentrate upon the truths expressed in this book—upon the many helpful thoughts given in the case histories presented earlier by successful subscribers. Do this several times a day. Within a week's time you will note new strengths in your investment thinking. Soon you will discover that your subconscious mind is a power-house of untapped strength and information. In it lies the secret of success. It will help you through crisis after crisis. It can make you wealthy.

The subconscious mind looks to your conscious mind for instructions. Your subconscious mind is constantly in a state of readiness. It never sleeps. What your conscious mind relays to it in the way of information, or when it asks for the solution of a problem, the subconscious stores the data, works on your problem 24 hours a day, and finally brings you the solution. However, you must recognize this solution when it appears. Once you realize the great potentials of your subconscious mind, you will have found the road to greater profits in the stock market.

Often the subconscious brings you the answer to a problem while you are doing something entirely different and when you least expect it. To practice the art of investing means to improve your investment thinking in this manner. Let your subconscious —that 90% of your mental ability that probably is not doing its best work for you—begin to store up new investment ideas and tools for your future successful investment plans.

My New Dow Theory then, is an appeal to all investors to stop their unrealistic, preconceived, or narrow thinking about the market and to stop relying upon "systems." In conclusion, let us develop a broader and more helpful understanding: of the market, the economy, future growth opportunities, a sound investment procedure, mass psychology, and ourselves.

INDEX

ABC of Stock Speculation, The (Nelson), 10-11
Accounts:
  cash and margin, 71
  investment model, 159-163, 213
  speculative model, 159-164, 213
Advances, declines and breadth of market studies, 105-106
Advisory services:
  attitude of public towards, 17-18
  avoid believing all that is printed, 134-135
  bearish during first phase of 1949-60 bull market, 82, 83-84, 87, 190
  conflicting reports, 188, 209
  emotional thinking, 142, 240
  popularity of, 2
  reliable information, 202-203
  Schaefer's "*The Dow Theory Trades*," (*see* Schaefer, E. George, "*The Dow Theory Trader*",)
  study of the advice given, 150-152, 243
  on third phase of primary bull market, 56-57, 60-61
  trading, 146
  variety of opinion, 201
  views on 1957 upsurge, 56-57
Automation, effect on economy, 62, 171-172, 176, 183
Averages, 31-36
  changes in, 32
  constructed by Dow, 9-10
  determining a "trend," 41
  Dow's three-trend concept, 34-36
  effect of economic news, 33
  40 Dow-Jones Bonds Average, 182
  Hamilton-Rhea theorists, 31
  Industrial (*see* Industrial Averages)
  intermediate or secondary trends, 34-35
  minor trend, 35
  movement of, 25-26
    indicative of periods of prosperity or depression, 26
    "lines" or horizontal, 25-26
    not an infallible guide to individual stocks, 26
  New Dow Theory, 33-34, 154
  pattern of several week's movement needed, 25
  primary trend, 34 (*see also* Primary Trend)
  Rail (*see* Rail Averages)
  reflect emotional thinking of investors, 33
  represent collective investment thought, 22
  three-trend concept, 34-36
  types of movement of, 22-23
  Utility, 10, 32

Bank Holiday, 27
Banks, buying stock through, 203, 207
Barron's, 11, 30, 52, 73
  "Study of Price Movement-market Laboratory," 108
Bear market: Phases—58-64
  action of 200-Day Investment Line, 100-101
  anticipating a coming, 58, 61, 99-101, 172
  bottom, 172
  definition, 4*n*
  false signals, 220
  1932, 23-24
  odd-lot studies, 88
  phases, 23-24, 38-64
    first phase, 58
    second phase, 58-59
    shorter and more drastic, 58-64
    third phase, 58-59
  primary, 12, 23-24 (*see also* Primary bear markets)
  severity of next, 172
  short interest to daily volume ratio indicates beginning of, 76
  technical indicators, 100
  200-Day Investment line used to forecast, 99-101
Bonds:
  40 Dow-Jones Bonds Average, 182
  selling area, 173-174, 181, 182
"*Boom Begins, The*," 95

Boom in the stock market:
election years, 175
government action to control, 170
following wars, 106-107
mass psychology during, 167, 184
1960, 95, 168
Bowles, Samuel, 5, 13
Breadth of market studies, 105-106
Brokers:
constructive investor guidance, 109
selecting, 133-134
types of, 71*n*
Bull market:
analyzing trends, 13-14
definition, 4*n*, 41
end of, 58
1921-29, 53, 59
1932-37, 53
1942-46, 53, 59
1949-60, 23, 45-47, 74-75, 92-94
effect of government controls, 59-60
no two are alike, 59
outrun economic growth, 66-67
phases, 23, 52-57, 59
duration of, 62, 169-170
speculative top, 169-170
primary trend, 23, 42 (*see also* Primary bull market)
importance of riding, 169
progress upward since 1949, 3
second phase, 52, 54-55
secondary reactions, 85
3rd and final phase, 52, 54-57, 169, 172
1949-60 bull market, 23, 61-64
top area, 172 (*see also* Top of bull market)
speculation during, 169-170
three-phase analysis, 53-57, 59, 62
Business.
downward drift in, 100
failures, 183
Buying investments:
at the bottom of the bear market, 162, 185
at beginning of a bull market, 42-43, 162
correlating yield areas with, 67
during intermediate reactions on the way up, 162
when primary bull market is on the way up, 42-43
when to buy just as important as what to buy, 42-43
Capital gains, buying stock for, 203, 228
Case histories of successful investors, 156-234
Cash or liquid position:
at the beginning of a bear market, 168
buy short-term Government paper, 185
during a depression, 174, 184-185
Charts, keeping, 230
Churchill, Winston, 125
"Coming Boom, The," 94, 111
Confirmation by Industrial and Rail Averages, 24
"lack of confirmation," 103-105
Corrections in the market, 54, 83
Cost of living, increases in, 3
Cowles, Alfred, III, 144-145
Crash of stock market (1929), 172
Industrial Average, 14
predictions, 13-14
Cycles, business, 58, 178-179
following World Wars, 106-107
Customer's man, selecting, 133-134

Danielson, George W., 5
Decisions, ability to make the right, 2
Declines in stock market prices, 4, 105-106, 167
Deficit financing, 118
Deflation, government control, 174
Depression:
causes, 170-171
financial cycles indicate, 178-179
government aid, 175
how to profit from, 167-185
sell stocks, bonds, real estate and business, 168
stay in cash position, 168, 174, 184-185
movements of average indicate periods of, 26
signs of coming, 178, 182-183
Disciplined thinking, 241-242
Distress selling, 23
Distribution of stocks, 78
Diversification, 157-166, 214
limits risks, 240-241
not all stocks move together, 240
value of, 210-211
Diversified growth issues, 157-166
letting profits run, 165, 190-191
list of, 163
investing in, 196-200

Diversified growth issues (Continued)
profits from, 160, 189-191
stay with, then long-term trend is up, 190-191
Dividends:
increase in yield on original investment, 159-160
investing on reactions, 159-160
long-term advance in, 65
reinvesting, 159
short sellers do not collect, 71
yield cycle, 65-69 (*see also* Yield cycle)
Dow, Charles H.
averages constructed by, 9-10
on dividend yields of stocks, 67
editor of *Wall Street Journal*, 8-9
fifteen principles, 21-26
financial writer, 5-6
founded *Wall Street Journal*, 6-7
investment philosophy, 234
investment truths, 153
on patience, 30
theories, 7-9
three-trend concept in movement of averages, 34-36
writings of, 7-9
Dow Jones & Company, 6
Dow-Jones Averages:
changes in, 32
historical beginnings, 9-10
Industrial Averages, 9-10 (*see also* Industrial Averages)
Rail Averages, 9-10, 32 (*see also* Rail Averages)
Utility Average, 10, 32
Dow theory:
all markets not subject to, 59
at top of the bull market, 180
bear market confirmation, 206
do-it-yourself interpretations, 20
evolution of New Dow theory, 27-30
fifteen principles, 21-26
basis for predicting stock market behavior, 22
Hamilton-Rhea school, 11-20, 205, 220
Hamilton's version, 11-14
"lack of confirmation" signal, 103-105
market vulnerable when yields are below 3½%, 67
new improvements, 20
New Dow Theory, 33 (*see also* New Dow Theory)
not a system, 156
orthodox, 219
psychological conditions effect, 24
principles, 3
averages represent collective investment thought, 22
final top of primary bull market, 26
Industrial and Rail averages must confirm, 24
"line" or horizontal movements, 25
long-term movements indicate periods of prosperity or depression, 26
movement of averages, 22-23, 26
pattern of several week's movements needed, 25
phases of Primary Bear Market, 23-24
phases of Primary Bull Market, 23
Primary Trend, 24
secondary reactions, 24
stock market influenced by psychological condition and unexpected events, 26
volume of transactions indicates market's course, 24
Rhea improves Hamilton's work, 15-20
three phases of the market, 52-64
yield cycle, 65-69
Dow Theory, The (Rhea), 15, 16, 19, 144
Dow Theory Comment, advisory service, 15, 17, 18
Dow Theory Trader, The (Schaefer), 28, 29, 57, 197
subscribers, 29, 57, 95
case histories, 186-234

Economic cycles, study of, 186
Economy:
bull markets outrun economic growth, 66-67
foreign competition, 183
government-managed, 167, 220
influence of managed economy on mass psychology, 117-119
over-production, 171
rate of growth, 65
taxes, 170
Education, indirect results, 243-245
Eisenhower, Dwight D., 94, 118
Elections, effect on stock market, 99-100
Emotional difficulties, originate in childhood, 139-141

Emotional maturity, pathways to, 131-135
cultivate successful investors as friends, 133
deal with a well-adjusted successful broker, 133-134
read before retiring, 132-133
select reading material carefully, 132, 134-135
study market trends, 131-132
taking time to relax, 132
Emotional pitfalls of the investor, 150-152, 156
Emotional thinking:
averages reflect, 33
mass psychology and, 112-113
profiting by adjusting, 127-135
of traders, 136-141, 154
Emotions:
fear can wreck investment plans, 124-127, 168
influence investment thinking, 168
kinds of, 120-121
negative, 246
of the crowd, are contagious, 243
positive, 120-121, 236
study of emotional problems of individuals and the public, 149
understanding one's emotions, 120-123
well-balanced, lead to confidence, 131-135, 218
Endowment funds, 91
Events, stock market influenced by unexpected, 26

Failures, business, 183
Fear:
can wreck investment plans, 124-127, 184
effect on stock market, 82-83, 85, 125-127
mass psychology and, 112-113
pathways to emotional maturity, 131-135
selling, 99
Federal Reserve Board, credit policies, 63, 117-118, 175
50% retracement concept, 44-51
bullish situation develops at the 1949 lows, 45-47
looking ahead, 49-51
1957 "Sputnik" sell-off, 48-49
proved reassuring in 1953, 47-48
theory of, 44-45
Financial centers, 21
Financial World, 30, 55, 56, 57, 87
Financial writers, 29-30 (*see also* Advisory Services)
constructive investor guidance, 109
during first phase of 1949-60 bull market, 82, 83, 87
emotional thinking, 142
may be wrong, 134-135
views on 1957 upsurge, 56-57
Forbes, 30, 55, 56, 57, 87
Forecasting:
mass psychology and, 25
study of three phases of the market, 57
techniques, 3-4
200-day Investment Line, 89-101
use of averages and volume of transactions, 22
Foreign aid, 176
Foreign competition, 183
40 Dow-Jones Bonds Average, 182
Funds, following stocks purchased by, 202
Future plans, sell stock before top of bull market is reached, 233-234
Future trends, method of predicting, 3-4

Gates, "Bet-a-million," 7
Goodbody, Robert L. & Co., 7
Goodbody, Glynn & Dow, 6-7
Gould, Jay, 7-8
Government:
economy supported by, 167
needs prosperity, 175
prevention of a depression, 175-176
Government bonds, investing in, 198-199
Government control:
on credit, 62
effect on dividends, 67
effect on 1949-60 bull market, 59-60
may influence mass psychology, 117-119
Greed, effect on investment thinking, 184
Greiner, Perry, 15
Growth stocks:
diversified position in, 157-166 (*see also* Diversified growth stocks)
investment-type, 159
speculative-type, 159
Guidance, investors need, 243 (*see also* Advisory services)

Hamilton, William Peter, 11-14, 156, 170, 180-181
ability to forecast market trends, 39, 144
articles written by, 143-144
emotional difficulties, 13, 19
fifteen principles, 21-26
prediction of 1929 crash, 13-14, 16, 39, 144-145
refinements to the Dow theory, 11
Rhea improves the work of, 15-20
on three stages of a bull market, 52
"A Turn in the Tide," 39, 144-145
Hamilton-Rhea version of Dow theory, 35-36
on averages, 31, 41
on duration of trends, 38-39
needed to be up-dated, 220
on primary trends, 35-36
trading system, 142-143
Hobby, stock market as, 204
Holland, "tulipomania" in, 113-114
Human nature in the stock market, 155-156
influence on investing, 240
study of, 186

Income stocks, 208-209
Industrial and Rail Averages:
at top of the bull market, 180
must confirm and Dow theory signal, 24
plus volume of transactions, 22
Industrial Averages, 9-10
dividend yields of stocks, 66-67
high close on January 4, 1960, 61
Index of 30 stocks, 32
"lack of confirmation" signal, 103-105
low close of March 8, 1960, 63
after a prolonged bull market, 172
quadrupled since 1949
at top of the bull market, 173
200-day Investment Line used with, 89-101
used in computing *200-day Investment Line,* 90
Inflation, 171-172
duration of trend, 171
end of, 172
following world wars, 106-107
government controls, 43, 167
stocks as a hedge, 3
Institutional buyers, effect on market, 54, 91, 199
Insurance companies, stock buying by, 91, 199
Intermediate or secondary trend, 34-35 (*see also* Reactions)
duration of, 39
Investing:
in-and-out trading, 29-30, 136
long-range concept, 29-30
practicing the art of, 235-246
absorbing market truths, 239-240
concentrating on market research, 237
devotion to the art of investing, 237-238
disciplined thinking, 241-242
learning indirectly, 243-245
need for patience, 238-239
planning future program, 238
training to be a successful investor, 245-246
understanding emotional self, 242-243
well-qualified guidance, 243
Investment counselors, 188 (*see also* Advisory services)
Investment model account, 159-164, 181, 213
Investment procedure:
case histories of successful, 156-234
for maximum profits, 150-166
No. 1 Model Investment Account, 159-164, 181, 213
No. 2 Model Speculative Account, 159-164, 181-182, 213
profiting from a depression, 167-185
staying permanently invested, 198, 207, 208
at top of the bull market, 173-174
Investment program, 205
diversified growth stocks, 189
importance of, 236
planning long range, 225-226, 238
procedure for maximum profits, 155-166
rewarding—financially and spiritually, 195-196
Investment thinking, influenced by emotions, 168
Investors:
case histories of successful, 156-234
cultivating successful investors as friends, 133
emotional concerning stocks owned, 240

Investors (Continued)
growth in number of, 25
influence on market, 89-90
long-term, 29-30
compared with traders, 148
success of, 148
number of, 78
traders (*see* Trading and traders)

Jones, Edward D., 6

Keene, James R., 7
Khrushchev, Premier, 118
Kiernan News Agency, 6
Korean War, 83, 118

Labor costs, 176
"Lack of confirmation" signal, 103-105
two types of, 103-104
Leadville, Colorado, 6
Le Bon, Gustave, 110
"Line" or horizontal movements, 25
Long-range concept of investing, 29-30, 148

Magazine of Wall Street, 55-56, 87
Margin accounts, hypothecation agreement, 71
Margin requirements, 59
Market conditions, study of, 166
Market trends (*see* Trends)
Market, stock (*see* Stock market)
Mass psychology, 110-119
at beginning of a Primary bull market, 91
being swayed by, 241-242
during boom periods, 167
effect of economy managers, 170
effect on secondary reactions, 24-25
emotional thinking, 112-113
emotions of the crowd are contagious, 243
forecasting and, 25
historical experiences, 113-117
Mississippi Bubble, 115-116
South Sea Company in England, 114-115
tulipomania in Holland, 113-114
importance of studying, 185
managed economy may influence, 117-119
odd-lot studies measure, 79, 80
reference to past experience, 110
Mind, conscious and subconscious, 129-131 (*see also* Subconscious mind)
Minor trend, 23, 35
Mississippi Bubble, 115-116
Mistakes, learning from, 188-189
Model accounts:
No. 1 diversified investment-type stocks, 159-163, 213
No. 2 diversified speculative-type accounts, 159-164, 213
Movement of averages:
indicate periods of prosperity or depression, 26
"lines" or horizontal, 25-26
Mutual funds, stocks purchased by, 199
Nelson, Samuel A., 10-12
ABC of Stock Speculation, The, 10-11
fifteen principles, 21-26
New Dow theory:
averages, 33-34
changing from orthodox to, 219
duration of trends, 40
emotional thinking of investors, 33
emphasis on the primary trend, 41-42
evolution of, 27-30
50% retracement concept, 44-51
market's three phases, 52-64
odd lot studies, 77-88
other trend indicators, 102-109
on primary bull markets, 40-41
phases of bear market are shorter and more drastic, 58-64
technical and psychological considerations must be included, 41
New York Stock Exchange:
membership held by Charles H. Dow, 6-7
short interest figures, 70, 72
New York Times, The, 30
Newspapers and magazines, financial columns, 21, 142
1929 stock market crash:
dividend yields of stocks, 67
editorial by Hamilton, 13-14, 16, 39, 144-145
mass psychology, 116-117
study of stock prices, 63
1932, dividend yields of stocks, 67
1949:
bullish situation develops, 45-47
short interest to daily volume ratio, 74-75
use of 200-day Investment Line, 92-94

1949-1960 bull market, 23, 45-47, 74-75, 92-94
  effect of government controls, 59-60
1953:
  short interest to daily volume ratio, 74-75
  use of 200-day Investment Line, 94-95
1957 recession:
  bullish odd-lot situation, 85-88
  50% retracement concept, 48-49
  heavy selling, 41
1958:
  bullish investment buying of early 1958, 95-97
  bullish odd-lot situation, 85-88
  short interest to daily volume ratio, 74-75
1960:
  market study forecasts, 177
  odd-lot studies, 87-88
  short interest to daily volume ratio, 75-76
  yield cycle, 69
Odd-lot studies, 77-88
  character of trends seen in, 77-88
  correlated with other market factors, 77-78, 79
  first phase of bull market, 54, 82-84
  measure of mass psychology, 79, 80
  net odd-lot buying, 79
1949-60 bull market, 84-85
  odd-lot buying, 79
  odd-lot selling, 80
  short sales, 80, 86
  statistics published daily, 79
  volume of odd-lot transactions, 79

Over-the-counter stocks, 230
Overbought market, 24, 76
Oversold market, 24, 76

Panic selling, 128
Patience, investors need, 186, 201-202, 238-239
Pension funds, 91, 199
"Permanent plateau" concept, 14
Personal trusts, 199
Pessimism of investors, 54, 55, 57
  short sellers reflect, 70
Phases of the market (*see* Three-phases studies)
Philosophy, stock market, 186, 196-200
Politicians, skilled in mass psychology, 117-118
Practicing the art of investing, 235-246
Price movements of stock:
  Dow's theories, 8-9
  long-term, 8
  predicting next major, 12
Primary bear market, 35-36
  dividend yields, 65-66, 69
  duration of, 43
  50% retracement concept, 51
  length of, 34
  phases of, 23-24, 58-64
  sidewise movements of "lines," 26
  "sold-out" condition, 43
  speculation, 104
Primary bull market, 23, 24, 35, 53-57
  begins after a long bear trend, 91
  duration of, 42
  50% retracement concept, 45-47
  first phases, 53-55
    dividend yields are high, 65
  following major wars, 42-43
  length of, 34
  New Dow theory, 40-41
  phases of, 23, 49, 52-57
  second phase, 54-57
  "shake-outs" interrupt, 69
  sidewise movements of "lines," 26
  third phase, 55
    attitude of public, 57
  time to buy, 42-43
  top, 26, 49, 99-100 (*see also* Top of bull market)
Primary trends:
  bear (*see* Primary bear market)
  builder of profits, 37-43
  bull market (*see* Primary bull market)
  definition, 23, 34
  Dow on, 37
  duration of, 34
  forecasting, 30, 189
  Hamilton-Rhea version, 38-40
  independent of economic factors, 239
  interpreting and following, 193, 201
  New Dow theory, 33, 41-42
  preconceived notions dangerous, 38-41
  when to buy just as important as what to buy, 42-43
Procedure for maximum gains in stock, 150-166
Production, danger of over-production, 171, 183
Profits:
  from a depression, 167
  "letting profits run," 165

Profits (Continued)
procedure for maximum gains, 150-166
research key to, 1-4
Profit taking, 233
Prosperity, long-term movements of averages indicate periods of, 26
Providence Journal, The, 5
Psychological conditions:
Dow theory effected by, 24
stock market influenced by, 26
Psychological problems of investors, 156
in a boom period, 184
importance of studying, 185
at beginning of primary bull market, 65
mass, 110-119 (*see also* Mass psychology)
need for self-analysis, 169, 236-237, 242-243
speculative, 66
Public's attitude towards market, reflected healthy situation since 1949, 79-85
"Put" and "call" options, 224-225
Pyramiding, 59-60

Rail Averages, 9, 32
index of 20 stocks, 32
"lack of confirmation" signal, 103-105
Rails:
no longer a growth investment, 105
speculative interest in, 103-105
Ratios, short interest-daily volume, 70-76
Reactions, secondary (*see* Secondary reactions)
Reading, financial:
careful selection of, 152
before retiring, 132-133
value of, 152
Real estate:
end of building boom, 182-183
when to sell, 173-174, 181
Recessions (*see* Depression)
Research, Market:
development of new trend indicators, 108-109
importance of, 185
indirect results, 243-245
key to stock market gains, 1-4
learning to concentrate on, 237
Rewards of investing, 195-196, 231, 236
Rhea, Robert, 15-20, 173
advisory service, 15
Dow Theory, The, 15-16, 19, 144
Dow Theory Comment, 15, 17, 18
emotional difficulties, 19
fifteen principles, 21-26
following of, 17-18
improves the work of Hamilton, 15-20
on phases of market, 53
Russian situation, effect on stock market, 99-100, 118

Schaefer, E. George:
The Boom Begins, 95, 111
The Boom Expands, 111
case history and future plans, 232-234
"The Coming Boom," 94, 111
Dow Theory Trader, The, 1, 28, 197
case histories of subscribers, 186-234
letters from subscribers, 95
number of subscribers, 29
early experience, 27-28
8-page ads predicting a 250-point upsurge, 87, 111, 125
evolution of New Dow theory, 27-30
Higher Prices Coming, 111
prediction of third stage upswing in 1957, 55-57
record of accurate forecasting, 30-31
registered investment advisor, 28
Secondary or intermediate reactions, 34-35, 55
buying on, 214, 232
definition, 23
Dow theory principles, 24
duration of, 39
second phase of bull market, 55, 85
Self-analysis:
importance of, 120-123, 169, 185
need for, 236-237, 242-243
Selling areas:
bonds, 182
stock prices in, 4
third phase of bull market indicate, 61
top of the bull market, 173-174, 181-182
Selling stocks:
before top of the bull market, 173-174, 181-182, 184, 233
remaining in liquid position after, 184-185, 239
when is the best time, 179-181
Senior averages (*see* Dow-Jones Industrial Average)
Services, advisory (*see* Advisory services)
"Shakeouts," 2, 55, 69
losses taken, 160
in the spring of 1960, 99

Short interest, 55
Short interest-daily volume ratio, 70-76
  beginning of bear market indicated by, 76
  bullish signals, 74-75
  method of computing, 72-73
  in mid-1960, 75-76
  useful for timing major selling and buying areas, 73
Short sellers:
  covering by buying stock back, 71
  definition, 70-71
  dividends not collected by, 71
  handicaps, 71
  odd-lot, 80
  ratio of short interest to daily volume, 70-76
Short term market fluctuations, 216
South Sea Company in England, 114-115
Special situations, 209
Speculation:
  government action to control, 170
  at top of the bull market, 169-170, 173, 178-181
Speculative model account, 159-164, 213
Springfield Daily Republican, The, 5
Statistics, advances, declines and breadth of market studies, 105-106
Staying invested, 198-199, 207, 208
Stock markets:
  all markets not subject to Dow theory, 59
  climb, 2
  crash, 14, 172
    editorial by Hamilton, 13-14
  discounts future business six to twelve months ahead, 142
  effect of war on, 59
  influence of unexpected events, 26
  predicting behavior, 22
  psychological conditions influence, 26
  study of, 186
  three phases, 52-64
  "tops out," 58 (*see* Top of bull market)
Stock Market Barometer, The (Hamilton), 11
Stocks:
  buying (*see* Buying stocks)
  distribution of, 78
  diversified growth issues (*see* Diversified growth issues)
  growth, list of, 177
  income, 208-209
  prices:
    factors influencing, 65
    rate of advance in, 65
  selecting, 212, 221-222
    diversified growth, 190-191
  staying permanently invested, 198-199, 207, 208
  switching, 198
  when to sell, 173-174, 181 (*see* Selling stocks)
Subconscious mind, 129-131
  investment decisions affected by, 152
  making it work for you, 242
  source of strength and information, 246
Success, case histories, 186-234
Swings, market, 54
Switching stocks, 198
Systems:
  avoid being fully dependent upon, 141-146, 246
  Hamilton-Rhea, 142-143
  reasons people use, 19, 179-180
  serves as a "crutch," 154-156

Taxes, 175-176
  effect on economy, 170
  need for tax reform, 176
Technical tools:
  50% retracement concept, 44-51
  "lack of confirmation" signal, 103-105
  odd-lot studies, 77-88
  ratio of short interest to daily volume, 70-76
  three-phase studies, 52-64
  200-day Investment Line, 89-101
  volume of trading, 22, 107-108
  yield cycle, 65-69
Thinking:
  correct thinking leads to correct action, 239
  disciplined, 241-242
  emotional, 120 (*see also* Emotional thinking)
  investment, influenced by emotions, 168
  pathways to emotional maturity, 131-135
Three-phases studies, 52-64, 77
  Hamilton-Rhea version, 53-54, 61
  primary bear markets, 23-24, 58-64
  primary bull markets have three long phases, 23, 53-57
    first phase, 54
    Industrial Average, 63

Three-phases studies (Continued)
in 1960, 60-61
second phase, 54-55
selling stocks at top of, 63
third phase, 54-57
Thomson & McDinnon, 27
Tight money, 100
Tips, accepting, 196, 203
Top of primary bull market, 99-100, 169, 172
advising the public, 174
all stocks do not reach top at the same time, 233
inexperienced investors will be bullish, 174, 180
investment procedure, 173-174
mass psychology, 173, 181
period for selling stocks, 61, 173-174, 181-182, 184
speculation, 173
statistics, 178
Trading and traders, 136-149
advisory services, 146
by the average investor, 4
beware of full dependence upon systems, 141-146
danger in, 207
emotional difficulties of traders, 137-141
in-and-out traders, 29-30, 136
odds against, 239-240
learning to take a broader point of view, 147-149
long-term investors compared with traders, 148
profit in, 145, 227-228
study of emotional problems of individuals and the public, 149
technique, 136
use of Dow theory, 193-194
volume of trading (*see* Volume of trading)
Trend indicators:
advances, declines and breadth of market studies, 105-106
"lack of confirmation" signal, 103-105
other, 102-109
research should develop new, 108-109
three cycles following world wars, 106-107
volume of trading, 107-108
Trends, market
averages (*see* Averages)
importance of studying, 185
intermediate or secondary, 34-35
minor, 35
primary (*see also* Primary trends)
study of, 131-132, 186
three-trend concept, 34-36
Truths, investment, 152-153
analyzing and absorbing, 239-240
Trust funds, investments of, 91
200-day Investment Line, 89-101
action in a bear market, 100-101
bullish investment buying of early 1958, 95-97
computing daily figures, 90
as a forecasting tool, 97-101
interpretations correlated with other studies, 97-101
in 1949, 92-94
in 1953, 94-95
represents buying by institutional investment sources, 91
used with Industrial Average, 89-101

Unemployment, 62
Utility Averages, 10, 32

Volume of transactions:
Dow theory, 24
overbought market, 24, 76
oversold market, 24, 76
reflects mass psychology, 108
short interest—daily volume ratio, 70-76
used in trend analysis, 22, 107-108
used to predict stock market behavior, 22

Wall Street Journal, The:
early history of, 6-7
editors, 11-14, 39
Wars, three cycles following, 106-107
Woodlock, Thomas F., 13
Yield cycle, 65-69
bull markets outrun economic growth, 66-67
correlating yield areas with buying areas, 67
dividends high at beginning of primary bull market, 65
effect of government controls, 67
irregular but important, 68-69
market vulnerable when yields are below 3½%, 67
primary bear market, 69
since middle of 1960, 69